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Comparison of Financial System in China and in the USA

Komparace finančních systémů v Číně a v USA

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The Declaration

Herewith I declare that I elaborated the entire thesis, including all annexes, independently.

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1. Introduction

As we all known that financial system is kind of intricate system. According to their actual conditions, each country has its own financial system. To observing different kinds of financial system we can divide them to two parts by their imparity and something in common. The first camp is bank-based financial system, it is typically in German and China also used this system, and at the end of 19th century, the economist in German said that the system in German which is bank-based system help them to past market-centered United Kingdom as an industrial power. And another one is market-based financial system, it is typically in American.

In my thesis it discuss the differences financial system between China and the USA, as it mentioned before, the USA is typically market-based system, while China has bank-based system. And as for the purpose to choose these two kinds of countries is not only about their different types of financial system but also China is a largest developing country in the world and also the second largest economic in the world. So what kind of system influences China's economic and what is advantage and disadvantage for China to have this system. Compared with the USA, what can China references the experience in the USA to develop the economic.

Following statement shows the main idea of each chapter.

Chapter 2 it references a brief introduction of financial system how does bank-based and market-based financial system worked.

Chapter 3 it introduced the financial system in USA.

Chapter 4 it introduced the working mechanism of bank-based system in China.

Chapter 5 explained the difference financial system between China and USA, and think about what kind of development patterns China should have in the future. As for a developed country in USA what kind of experience can be refereed in China. And what type of disadvantages does bank-based system have, and how can China avoid it.

2. Principle of financial system

2.1 General view of financial system

Financial system is complex system with lots of participants. It consists of lots of institutions (bank, insurance company), borrowers (government companies) and lenders (investors). These participants will help companies and investors to build their relationship. In a word, the main aim of the financial system is to transport the fund from surplus units to deficit units. And these financial institutions service as financial intermediaries in financial market, this function facilitate fund from surplus units to deficits units, at the same time it also service as middleman in financial market between the investors and companies, this function can reduced the commission fee or transaction cost, and also can transformation the risk and maturity.

As for scale financial system also can be defined as the global, regional or firm specific level. From a corporate perspective, the financial systems means a lot for a company, it can shows not only the health condition but also financial condition of a company these sectors depends whether the company can develop. On a regional scale, the financial system is the system that enables lenders and borrowers to exchange funds. The global financial system is basically a broader regional system that encompasses all financial institutions, borrowers and lenders within the global economy.

According to the different forms of the financial system we can classify the financial market in to different way. According to maturity of claim it can be divide as money market and capital market, money market is always used for short term debt usually the maturity is under one year, it is opposite with the capital market, capital market is for long-term debt the maturity usually longer than one year. [1] By seasoning of claim financial market can be divided in to primary market and secondary market, primary market is a place that corporate issued bonds the secondary is a place that in where the investors can be traded. Classify by immediate or future delivery, there have cash or spot market which traded immediately, and derivative market which delivery in future.

2.2 Financial market components

Recent years, people do lots of exploration in financial system for developing or new-developing countries, and wants to provide some ways to help these countries to promote the economic revolution. Worldwide, probably, it can divide these different financial system in different countries into two parts, the first one is bank-based system; the second one is market-based system. The first type is typically in German, China is also used this system, the second types is typically in the USA and the UK. Bank-based system means that the main external fund of enterprise is from bank loan. Opposite the bank-based system is market-based system, it means that the main external fund of enterprise is from capital market (such as: stock market bonds market). Actually different countries have its financial system to suit its own history,

economic, policy, and also some traditional social roots, so it is no wonder that will led to some advantage and disadvantages in company management, risk allocation and resources allocation. But despite the bank-based system or market-based system it also has kinds of financial system and they have the same parts as follow.

2.2.1 Bank and non-bank institution

In financial system bank has occupied a significance position. We usually divided it into two parts central bank and commercial bank. Central bank is kind of bank which is organized by government, it can be seen as a government tool used to adjust the national economy, and make the economy growth stability. It also can be seen as a supervision department to supervise and regulate the action of commercial bank. Commercial bank is kind of financial institution the aim of it is make benefit, it provide lots of business such as loan, deposit and settlement business. Commercial bank can be seen as a financial intermediary to connect the mortgagor and mortgagee and find profit in it.

Central bank

Central bank is the highest monetary and financial management organization in a country. And also occupied a core position in each country, have ability to formulate and execute the monetary policy which is suit its national conditions, macro-control of the national economy, supervising and managing other financial institutions. Expect that central bank still have following functions.

- Issuing bank
- Bank's bank
- Government bank

Issuing bank

Central bank has right to issuing domestic currency, as for it reasons can be as follows: firstly it can avoid bank failures and financial chaos when dispersed issue, keeping goods and services circulating, making economy stability and development. Secondly, it benefit for country's currency circulation, easier to control currency, and keep the ratio between currency in circulation market and national economic development more stable, make the central bank to strengthen its economic strength. Last but not least, conducive to the implementation of the national monetary and financial policy, convenient for government to use monetary tools to management and adjustment national economic.

Bank's bank

This kind of function makes central bank to be lender of last resort for commercial bank and other financial institutions, it also reflect that central is kind of special institution. Though this function central bank exert influence on the activities of commercial banks and other financial institutions, so as to achieve the purpose of macroeconomic regulation. Central bank as bank's bank should carry out these duties:

Firstly, in order to protect the depositors' financial security, central bank use the law to regulate commercial banks and other depository institutions that they must sent amount of guaranty money for deposits according to their reserves, this kind of reserve will prevent the commercial bank and other financial institutions have lowest payment capacity. Secondly the central bank can control the [4] credit creation of commercial bank, according to this method central bank can control the money supply. Thirdly, increasing the capital of central bank (deposited reserve is kind of main fund of central bank). Central bank always use two main [5]ways to be lender of last resort, the first one is bills re-discounted, it means bills held by commercial banks to the central bank posted to obtain funding; and another methods is notes remortgage., it means that commercial bank will pledge the notes that commercial holds to central banks to obtain funds.

Government bank

The main content of this methods are as follows:

- Agent the country's exchequer and implemented the national budget cashier business, the government issued and sold government bonds, and for debt service matters.
- Central bank agents issuing government bonds, deal with debt repayment at maturity.
- Help the government financing the funds. When government financial statement lost balance, central will help government to solve this problem temporarily. Central bank always to help government in this satiation; temporary imbalance in fiscal revenue or expenditure, or a long-term fiscal deficit, for this situation bank will provide loan for government, another ways is central bank will buy treasure bills in the first market.
- Formulating, releasing and supervising the execution of orders and regulations relating to financial regulation and business.
- On behalf of the state to participate in international financial organizations, doing inter-country and inter-national financial cooperation.

As it mentioned before central bank is kind of issuing bank, bank's bank and government bank, it can releasing country's currency can be the lender of last resort and still can participate the inter-national and inter-country's financial cooperation. These kinds of function reflect central banks play a leading role in a country's economic system. Because of that central bank always use some tools to adjust the financial system here are as follows.

- First is deposit reserve system, it means that central can adjust the commercial bank's deposit reserve ratio according to the regulations [6] but central bank must within the limits of the law. This way can help central bank to control the credit creation of commercial bank, control the social money supply indirectly.
- Second is re-discount, [2]it means that commercial bank and other financial institutions, will discounted bills obtained unexpired, and let endorsement to the central bank convertible cash, and after central bank deduct the interests and

premium from collection date to maturity date, the rest of the bill will be paid to applicant for re-discount.

- Third one is open market operations. It means that central will sell or buy the national debt, other government bonds and foreign currency. Central bank can use these ways to influence the market interest or money supply, and this way will be used very frequently.
- Last but one, [4] make central bank benchmark interest rate certain, it means that the term of deposit interest rate and loan interest rate stipulated by the central bank, all commercial banks and other financial institutions shall conduct capital activities in accordance with this benchmark interest rate.
- Last but not least, Re loan, it means that the central bank's final loans to commercial banks and other financial institutions.

Commercial bank

Commercial bank is kind of financial institution it provides abundant of financial services, commercial banks are financial enterprises operating money and capital, it have independent capacity for civil rights and civil capacity, commercial bank is independent management according to law, self-financing, the bank with its full legal person property independent civil liability.

Following paragraph illustrate the business of commercial banks. [5] Commercial bank have mass of business, we can divided it into four parts first one is assets business like cash asset business, credit business, investment business, discount business. The second part is debt service, such as deposit business, and other business. The third part is intermediate business of commercial bank; it has settlement intermediary business, secured intermediary business and other intermediary business. The last part is international business of commercial banks it contain, foreign exchange business, international trade settlement business and foreign exchange fund business.

Like the central bank commercial bank still have its own function. It can be as follows:

- Credit intermediary function, it means that commercial bank is kind of enterprise which operate the currency and money capital, when commercial bank operate the loan business it will need huge amount money, and this amount funds mainly from deposits and other forms of absorption of funds.
- Payment intermediary function, it also can be named as function of money management, this function is mainly in its [9] indirect business, including foreign exchange business, collection of business and agency business and so on. This is the main way to attract customers and provide the social wealth service for commercial bank. Credit creation function, this kind of function is most remarkable function distinguish with other financial institution. Commercial bank will make bank loan when it is absorbing deposit, and on the basis of check circulation and transfer settlement, in this way the bank loan can be conversion into deposit with the institution of the deposit will not be extracted.

- It will increase the source of commercial bank funds, and at the end of the process derivative deposit the entire banking system can be formed several times in the original deposit, which is the bank credit creation function. That is credit creation function.

Function of creating financial instruments, commercial bank creates lots of financial instruments between debt service and intermediary business, like negotiable.

Non-bank institution

Non-bank institution is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. Non-bank financial institution facilitated bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering. Examples of these include insurance firms, pawn shops, cashier's check issuers, check cashing locations, payday lending, currency exchanges, and microloan organizations. The main operation of non-bank financial institution are issue stocks and bonds, accept credit commission, insurance and other types of fund-raising. And used this amount money in long-term investments of financial institutions funding.

According to the definition of non-bank financial institution, I t can be divided into several parts which are as follows:

- Insurance institution. It will include insurance companies, national insurance bureau, mutual insurance, insurance cooperatives and individual insurance organizations. As for the function of the insurance institution is to help transfer the risk from insured to other entity.
- Fiduciary investment is a specialized or main financial institution for financial trust. It is group form of organization. The creation of the trust is the development of individual entrusted by the group entrusted. The main type of the fiduciary investment as follows: trust and investment companies, trust banks, trust companies, bank trusts and so on. As for securities institution there are securities exchanges, securities companies, securities investment trust companies, securities investment funds, securities finance companies, rating companies, securities investment consulting firms.
- Financial leasing institutions: mainly commercial banks to invest and manage the leasing companies or leasing business, manufacturers or distributors with the leasing company.
- Cooperative financial institutions. Cooperative finance has a long history, in the financial system occupies an important position. Mainly rural credit cooperatives, urban credit cooperatives, labor treasury, postal savings institutions, savings and credit associations.
- Financial companies. Different countries have different names and operation in each countries is quite different, But most of the subsidiary institutions of commercial banks, mainly to absorb deposits.

2.2.2 Financial market

Financial market is occupied a core position in financial system in a country, and it has lots of part in the financial market, following statement will illustrate the main part in financial market, it's can be the following part:

- Securities market
- Stock market
- Bond market
- Insurance market

Securities market

Securities market is type of market that can exchange or issue marketable securities, include bonds, stocks and funds. This marketable securities will issued in primary market and people will buy it in second market. This type of securities market still has its own functions as follows:

- Financial function
- Capital pricing function
- Capital allocation function

Financing function, it means it provide a channel for borrower to financing capital, and also provide a channel for investor to invest.[10] That means the securities which is traded in the market can both have financing function and investing function. It also means that in when the market is working it also have fund surplus and capital shortage. The funds surplus can buy securities to invest their money, and capital shortage can sell.

Capital pricing function, securities present a kind of capital, therefore the price of the securities present the price of the capital. And the price of the securities is the result which influenced by provider and demander. [10] Operating securities market come into the relationship between the provide competitor of the securities and the demand competitor of the securities market. And the result of that is produce in high return on investment capital, the large demand of the securities market the higher price of the securities.

Capital allocation function. It means that the securities market will use the price of the securities to guide the circulating of the capital. This type of action will achieve a reasonable allocation of capital. [12]The pricing of the securities will depend on the expected rate of return which provided by the securities exchange. [11] The securities price reflected the ability to financing function. And the high rate of return of the securities always come from the company which has huge development potential and operating well than any others or any newly-rising enterprises. Because these securities have high expected rate of return so they always have higher market price. Thus, they have higher financing ability. So in this situation securities [9]market will guide the capital flows to the company which gives the investor high rate of return make the capital more efficiency, and promoting the rational allocation of resources.

Stock market

Stocks is kind of securities that issued by joint-stock company to shareholders for financing, this action can make shareholders obtain dividends or bonus, and every shares of the stocks represent the basic units that the equity of the shareholders to joint-stock company. This equity is kind of comprehensive right, it means shareholders can join the stockholders' meeting, join how to run the business. But this kind of [13] right will depends on how many shares you owned in this corporation. As for the stock market it is a place that issuing and trading stocks, it including two parts issuing market and trading market. Issuing market can be named as primary market. It means that the issuing company peddling their stock though some stock dealers.

Lots of the stocks do not have a fix place to issuing, they always issued in some trading website. The company issuing stocks has [14] two reasons the first one is to financing the second one is to expand their capital. And it will have two different kinds of ways to issue stocks; the first one is issued by the company and with some help of the investment company and some dealers. The second one is let securities underwriters contracted for sale. These ways also have its advantage and disadvantage, the first one has low costs to issuing but it will cost a long time to issuing stocks, the second one will cost less time to issuing the stocks but it will have higher issuing costs, and the main cost of the issuing is the premium for the dealers and investment companies. Trade fair, can be named as secondary market, it have two different kinds of market, the first one is stock exchange market, it is a kind of organized market which trading stocks. According to the stipulate, the stocks can be traded in the market need to get the permit of the stock exchange, the second one is over-the-counter market, in this market they trade the stock which is can't be traded in the stock exchange. This kind of market always have fixed place to trade but they only have spot trade do not have forward trade.

The function of trading market

Stock trading market contained all the action that makes stocks circulates; developing this market will create a useful situation for company to finance. And investor also can sell or buy the stocks at any time according to their willing. For this reason investors can make long- term investment become shorter and transfer stock into cash very easily, it makes stock safety and fluidization. And the price in the trading market is like a barometer, it can reflect the situation of the demand and supply of capital, the industry outlook and political situation very sharply. For a corporation increasing or decreasing the price in trading market can reflect the operating in the company, this change will provide lots of information of the company, can provide the operation decision and management of the company.

Bond market

Bonds, means the government, commercial companies and financial institution borrow money from society, they will issue some securities to the investor and they will pay for the interests according to the interest rate and also pay for the capital on

the basis of some agreement. Substantially, bonds is type of [26] certificate of some debt, it still have some force of law. Bonds is disparity from the bank loan, in bonds the debtors have straight relationship with the creditors, but bank loan the money who saved it in bank to the borrower. Bonds market, is a place to trading and issuing bonds, it is a sort of vital part in financial system and also indispensable part in a country's financial system. A mature and health developed bonds market can provide a low risky financial tool for both issuers and investors.

Like stock market, bond market also has some basic functions here are as follows:

- Financing function
- Capital flow-oriented function
- Macroeconomic regulation and control

Financing function, like the stock market, bond market also have this function, the aim of financing function is to make the money goes to the place which needs it. For example sometimes government needs money to do the infrastructure, needs money to do the social welfare, some company which is not already to become a joint-stock company when they needs funds they will issue bonds to financing.

Capital - flow – oriented function, people always want to buy the bonds that issued by the company which have a great state of operation, but these company always will not offered the high interest paid, for these company the financing costs is very small, on the contrary the company with bad operation will not as popular as the great because people will afraid that they can't get their money back, so the company will increase their interest rate to attracted the investor to invest their company, for these company which have bad operating situation when they want to financing they always will costs more than the company which have great operating situation.

Macroeconomic regulation and control, as I mentioned before central bank can use some tools to adjust the economy and one of the option is open market operation, in this type of ways we can use bond market to do that, the government can selling of buying the treasury bills in the bond market, though this ways central can control the money supply. When the economy is overheated government need [15] to decrease the money supply and selling the bonds in market, and when the economy is recession, government need to increase the money supply and buying bonds in bond market.

As the same as the stock market, in bond market also have primary market which is issuing bonds and secondary market which is trading bonds in the market.

Insurance market

As same the stock market and bond market, insurance market is a market that consists of lots of insurance products, in another way the demand of the insurance products plus the supply of the insurance products equal to the insurance market. According to the different insurance service and the underwrite procedures, insurance market can be divided into two parts:

- primary insurance market
- Re-insurance market.

Primary insurance market

The two main subjects in this market are insurer and insured. These two main subjects build the market through the contracts that they agreed with each other. In the primary insurance market it can also divide the market into life insurance and non-life insurance. Life insurance, is a contract between insurers and insured, they use the policy holder's health, lifespan and health conditions as contract object, and make the illness, death, live, injured as a kind of risk that should be precaution. When the insured suffered the accident or lose work capacity (because of the illness, disable) the insured can receive a lump sum from the insurers, this amount of money can help them to survive from that situation, or solve a part of their financial risk. The traditional life insurance have a wide range of type, basically it can define them into health insurance, life insurance and injury insurance. [18] Non-life insurance, it can also call it as property insurance, it means that according to the contract that signed by the insured and insurer, the insured will pay for the premium to the insurer, and the insurer have duty to compensate for a loss when the insured suffered contingency. The main difference between life insurance and property insurance are they have different contract object, the object of life insurance always been the health or lifespan of human, but the object of the property insurance always been the property.

Reinsurance

It means the insurers signed the reinsurance treaty with the reinsurance company on the basis of the primary contract. The insurers use this way to face different risk.

2.2.3 Financial instrument

Financial instrument means it can be traded and it are financial assets in financial market, it is a written confirmation used to prove the relationship of deficit or surplus about lender and borrower and this instrument can be financing hedging so it called financial instrument. In financial market there are manifold of instrument like Stock, futures, gold, foreign exchange, policy, securities. Generally, financial instrument can be divided into two parts: cash instrument and securities.

Cash instrument

This refers to the modern credit currency. Modern credit money [16] in two forms: notes and bank demand deposits, it can be seen as the bank's liabilities, and has been among the public to obtain generally accepted qualifications, the transfer is not any trouble. This full liquidity can be seen as an extreme of financial instruments.

Security

These financial instruments have the characteristics of circulation, transfer and acceptance, with certain conditions attached. Including deposit certificates, commercial paper, stocks, bonds and so on. The degree to which they are accepted

depends on the nature of the financial instrument. According to the [17] specific characteristic it can divided these instruments into two parts: long-term debt and short- debt, the long-term debt must be last more than one year and it include bonds, loans, bonds futures, option on bonds futures, interest rate swap and etc. The short-term debt must be under one year, it include securities, CD, short term interest rate futures, forward rate agreement and some equity, etc.

3 Financial system of China

3.1 The development of financial history in China

3.1.1 The early phase of Chinese financial history

The development of Chinese financial industry can be traced back to 256 BC in Zhou dynasty, the institution which operates borrowing and lending stuffs, it can be seen as the origin bank. [22] People borrowing money from that institution and the institution will survive for charge some premiums. This institution existed until the end of Ming dynasty, because it appeared the seeds of capitalism at the end of Ming dynasty, although the development is really slow, it still created the new financial institution at this stage named exchange shop or exchange bank. These kinds of institutions are much more like traditional bank than the institution which is operating the borrowing and lending stuffs. [8] Because it appeared the seeds of capitalism, commerce became more and more prosperous, lots of people gave up to operate farm rather than to go out and running their business, these amount of people took their business all around China and even came down to the neighbor country like Korea, Japan and Russia, it is dangerous and inconvenient for them to take lots of cash in to the journey so it appeared the traditional banks to help them solve the problem. [28] The actions accelerated the development of Chinese financial industry. Due to the long feudal rule, modern banks appeared late in China, after the Opium War, foreign banks entered China, the earliest is the British banks such as Li, followed by the establishment of the British Standard Chartered Bank and HSBC, until 1897 China has established the first country named Bank of China. After the First World War, China's banking industry began to develop rapidly. Banks gradually became the main body of the financial industry. [19] The corresponding financial institutions began to retreat to the secondary position and gradually decline. The development of Chinese banking industry is basically with the development of national capitalist industry and commerce to promote each other, which shows that the financial industry and the close link between industry and commerce, and its important impact on the national economy. [18] After the establishment of the People's Republic of China, the government confiscated the bureaucratic capital bank of the Kuomintang and carried out socialist transformation of the private financial industry, and established a highly centralized and unified national banking system. At the same time the government in the vast rural areas, launched and organized farmers to establish a large number of collect nature of rural credit cooperatives, and to enable them to play the role of the national banks in rural grassroots institutions.

3.1.2 The Chinese economic reform

In the early days of the founding of China, China suffered a decade of civil unrest, so that the country and the people suffered serious setbacks and losses. And the end of Cultural Revolution, China's economic situation was in a state of slow development

and stagnation. At that time, China must pass a reform to liberate and develop social productive forces to improve and develop social productive forces to improve people's lives. And according to the situation [20] around outside in the 1970s, there has been a new revolution in science and technology in the world to promote the development of the world economy at a faster pace. The gap between China's economic strength and scientific and technological strength and the international advanced level has obviously widened and faced with great international competition pressure. China must catch up with the trend of the times through a reform. The internal reform of China has four steps. The first is the rural basic [21] management system reform, that is, household contract responsibility system. In the later 1970s, this reform began in Anhui, Sichuan, the emergence of individual areas, but its nature has not been the central affirmation. As a result of this approach to overcome the drawbacks of the production team system, to solve the problem of incentive system, farmers' enthusiasm for production has been greatly improved, 90% of the rural areas established agricultural product responsibility system. 1982 this method has been affirmed by the center.

Following Table 3.1 shows the huge achievement of Chinese revolution.

Table 3.1 Production of major agricultural products at the beginning of reform

Unit: Ten thousand tons of

Years	Grain production	Cotton production	Oil plants production	Meat	Aquatic
1978	30477	217	522	856	486
1979	33212	221	644	1062	431
1980	32056	271	769	1205	450
1981	32052	297	1021	1261	461
1982	35402	360	1182	1351	516
1983	38728	464	1055	1402	546
1984	40731	626	1191	1541	619

Source: The collection of statistic material in the early 50 years of new China

The second step is to open the agricultural market. The market mechanism began to allocate agricultural resources. Due to the implementation of the household contract responsibility system, the production of agricultural products and the income of farmers, agricultural products began to appear surplus and enter the market circulation. 1984 began to clear the flow of agricultural products and the development of commodity production, agricultural market in 1985 gradually liberalized, the agricultural market system began to build and improve, until 2004, fully liberalized the food market and the price. In the same period of reform, the state through the

promotion of agricultural prices and other measures to stimulate the enthusiasm of farmers, agricultural supplies steadily increased.

The third step is to carry out ownership structure reform, township enterprise development. In the 1980s, China's township enterprises began to develop. On the one hand, the reasons for the development of agricultural labor productivity were the rise of the labor force. [1] On the other hand, the increase in the income of the peasants increased the demand for industrial products and stimulated the production of industrial products. In 1984, the state requested local departments to support the development of township enterprises, which not only changed the rural economic structure but also provided new sources for farmers' income growth. The fourth step is from 1989 onwards is began to try to build rural areas in the rural security system. In 1992 the rural areas to pay the main payment, supplemented by the principle of national policy support, the establishment of rural social endowment insurance system. 2003 began to establish a new cooperative medical system, in 2007 established a nationwide minimum living security.

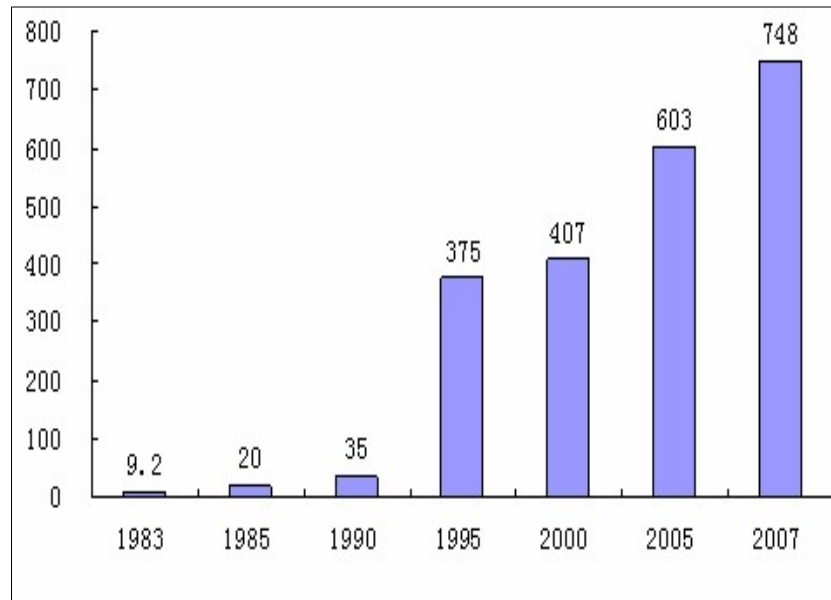
The main action for China to open-door to the outside world is to attract the investment, China's opening up mainly for the introduction of a large number of foreign invest, opening up from the coast to the mainland to develop from point to line, from the line to the surface of opening. China's mainland has first established six special economic zones, Shenzhen, Xiamen, Shantou, Hainan, Kashi, which as a representative of China's reform and opening up in just a few years into a modern city.

After 1995, the Chinese government put forward the western development, the revitalization of the northeast old industrial base makes China, whether in the market trade or industrial production have made great progress. The opening to the outside world in China makes a rapidly development of Chinese economic.

Following Figure 3.1 shows the investment of foreign merchant during reform (1987—2007).

Figure 3.1 Investment of foreign merchant during reform

Units: billions of dollars bureau

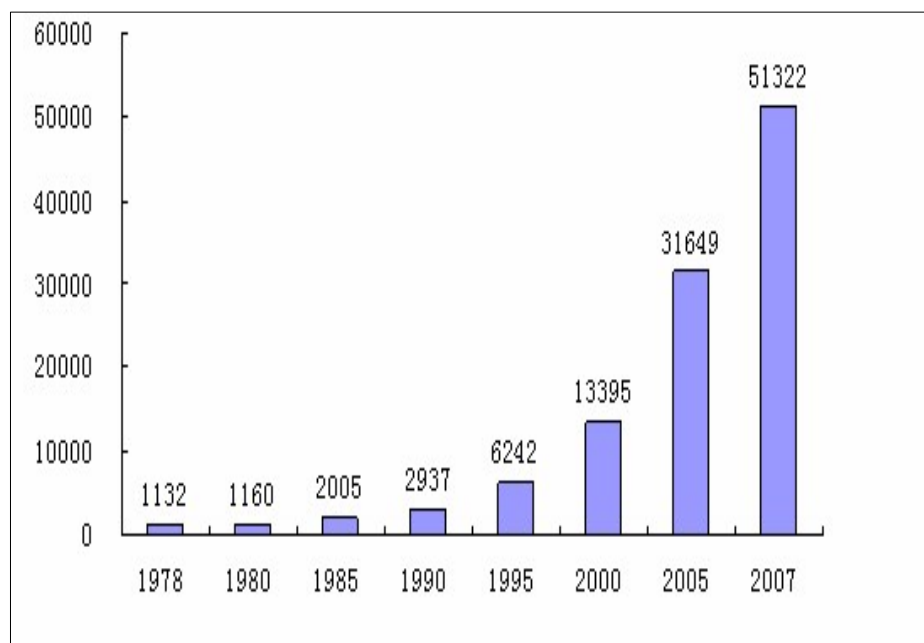


Source: State statistics of China (<http://www.stats.gov.cn/>)

Following Figure 3.2 shows the fiscal revenue (1978—2007) after the revolution.

Figure 3.2 Fiscal revenue after revolution (1978----2007)

Units: billions dollar

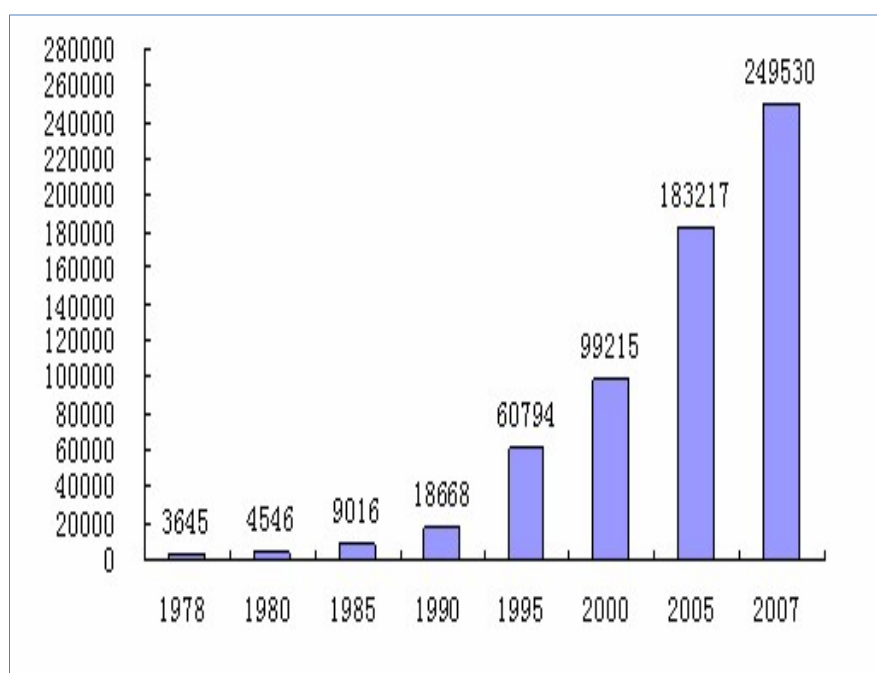


Source: State Statistics Bureau of Chinese (<http://www.stats.gov.cn/>)

The following Figure 3.3 shows the change of increasing GDP.

Figure 3.3 Change of increasing GDP during reform (1978—2007)

Units: billions dollars.

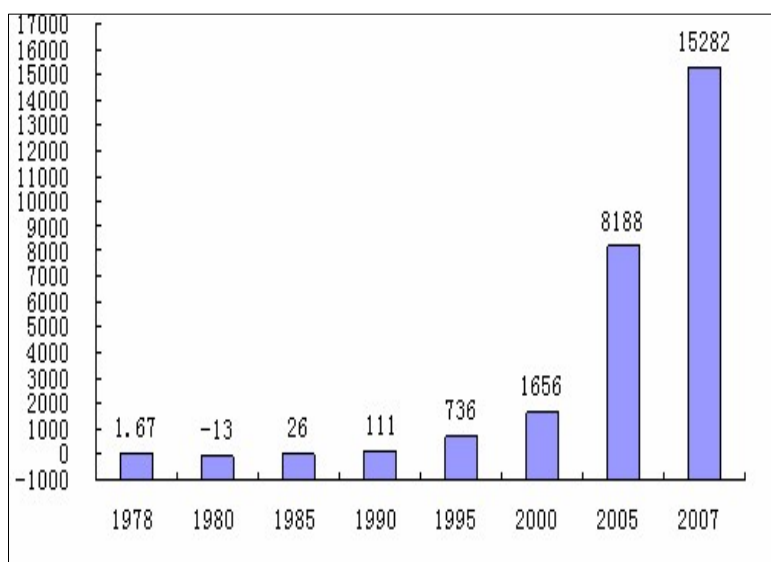


Sources: State Statistics Bureau of China (<http://www.stats.gov.cn/>)

Following Figure 3.4 shows the amount of balance of foreign exchange reserve.

Figure 3.4 Amount of balance of foreign exchange reserve

Units: billions of dollars.



Source: State Statistic Bureau of China (<http://www.stats.gov.cn/>)

From these data it can be easily to notice the innovation which happened in the early stage of China are really valid, it helps China to overcome all the difficult and lay a basis for the future development.

3.2. Bank-based financial system in China

The bank-based financial system is a financial system based on the allocation of financial resources by bank indirect financing. In this type of system the main source of outside fund in an enterprise is to use indirect channel to financing. Bank play a major role in mobilizing savings, allocating funds, supervising managers' investment decisions, and providing risk management tools. In bank –based financial system, banks play a leading role in transforming savings into investment, allocation resources, controlling business, and providing risk management tools. And also bank use their capital, talent, information and other aspects of the advantages of a comprehensive and extensive participation in economic life, promote economic development.

3.2.1 Bond market in China

Introduction of bond market in China

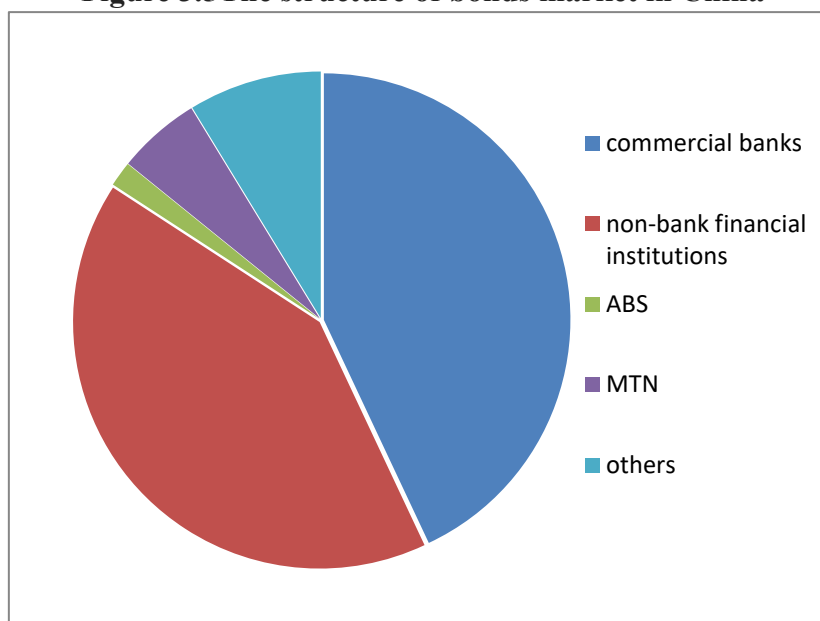
China's bond market has grown very rapidly over the past decade, with bond trusts less than the United States and Japan. Which the off-market transactions accounted for more than 80% of the total transaction, is the most important place for investors to trade. The main trading participants are all kinds of financial institutions, the concentration is higher, and the investor structure is not diversified. At present, China's bond market securities innovation, internationalization further deepened, the development trend is good, but the credit default issue can't be underestimated.

The main participants in China

The bond market in China can be divided into off-market and on-market. The off-market includes the interbank market and the bank counter market which includes the Shanghai Stock Exchange and Shenzhen Stock Exchange. [19] The main participants in the inter-bank bond market are institutional investors, which are bulk markets (wholesale markets). The main participants in the bank counter market (commonly known as the OTC market) are individuals and some institutional investors, generally negotiated by the parties to the transaction price. The exchange market will provide online transactions for investors in Shenzhen Stock Exchange and Shanghai Stock Exchange listed on various types of bonds. Among them, the total amount of bonds traded on the Shanghai Stock Exchange accounted for more than 90% of the total market trading market, is the most important domestic market trading market.

Following Figure 3.5 shows the structure of investors in bond market of China.

Figure 3.5 The structure of bonds market in China



Source: State statistic of bureau of China

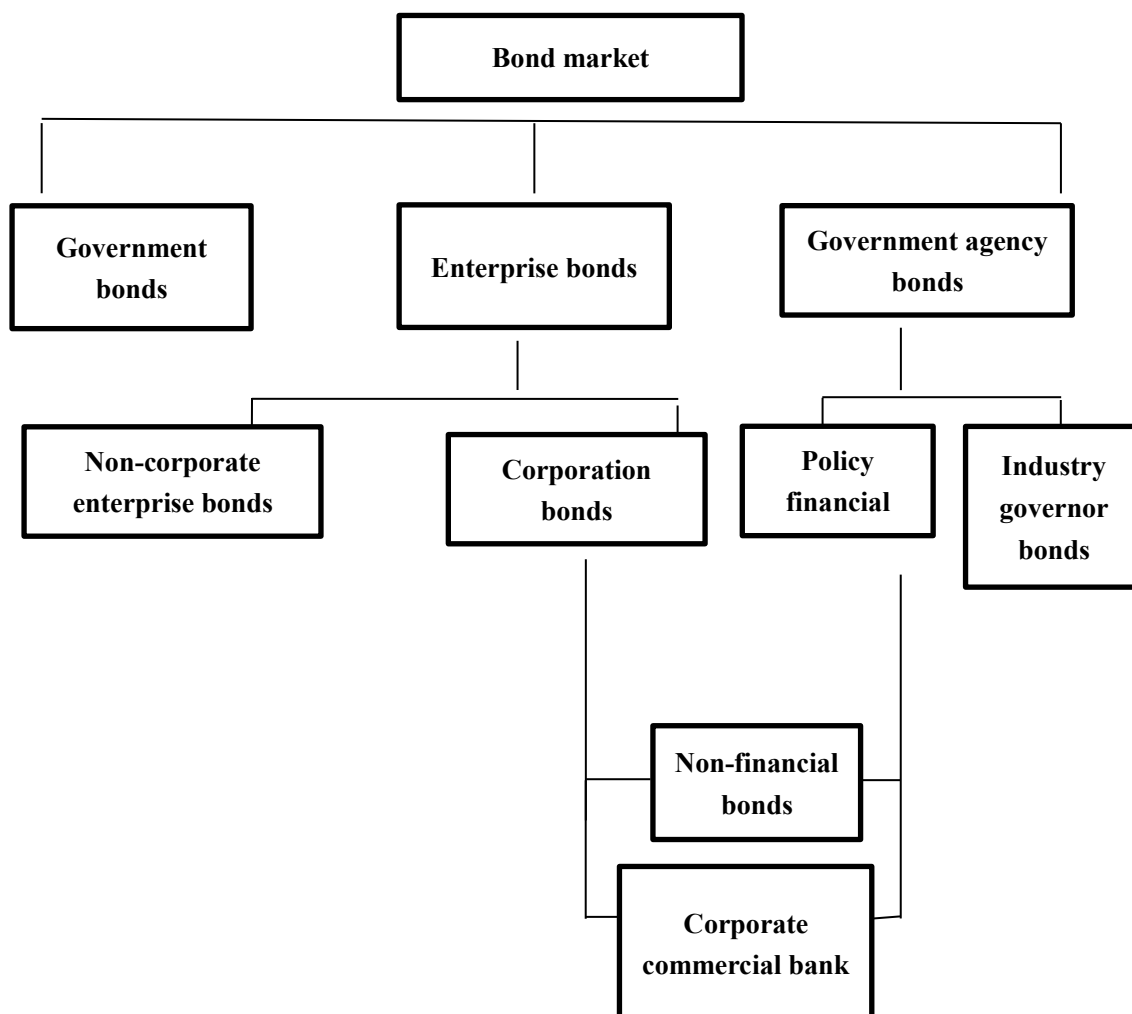
(<http://www.stats.gov.cn/tjsj/tjbz/hyflbz/201310/P020131023306972568040.pdf>)

From the perspective of the investor structure of holding bonds, the proportion of commercial banks and non-bank financial institutions reached 88.18%. It can be seen that the participation of China's bond market is highly concentrated and the investor structure is not diversified. From the structure of the securities point of view: the bond market in China has been occupied by policy of bank bonds, bonds, medium-term notes which has high security and this amount quantity will reach to 70.75% and other accounts accounted for less than 10%. At present, China's national bond market is becoming more diversified, but the structure of holding bonds by investors become to have a huge incline, it represents most of emerging bond are still in the adjustment period, the issuance are limited, the market participation is low and the most investors are not trust that kinds of bonds, but the future development space can be expected.

At present the bond market in China has a certain scale, the coupon and the investors are get highly contracted, the new coupons and small-scale investors market participation is limited, the bond market development is not perfect. In addition, the gradual exposure of the bond credit default will also put the future of the bond market in a dangerous place. If the bond market in China wants to become to a real market-based, coupon diversification and investor pluralism they need to though a long time period.

Following Figure 3.6 shows the structure of bond market in China.

Figure 3.6The structure of bond market



Source: Own table

3.2.2 Chinese government bonds

The development of Chinese government bonds

There are five stages shows the development of Chinese government bonds they are as follows: the first stage happened in 1949 to 1958, in order to raise state construction funds and develop the national economy, China has issued hundreds of millions of bonds at this stage, the issue is not large, the annual issuance of treasury bonds are less than 1% of GDP. The second stage begins 1981[4] to 1993 because of China insists the ideal of balance fiscal, there is no more issuing of bonds, the government maintain the balance of the budget in most of the year, even it happens the deficit the scale are very small, mainly to the central bank overdraft solution.[25] The third stage is from 1981 to 1993, in order to make up for the fiscal deficit and raise funds for economic construction, the government decide to restore the issuance of government bonds in 1981, but the scale of bonds still very small, the annual average circulation in this stage is 19.8 billion Yuan and the cumulative circulation is

210.6 billion Yuan, national debt growth is relatively stable. The fourth stage is from 1994[27] to 1997, because of the national budget system reform, the government is no longer allow the central bank to overdraft to solve the deficit and issuance of bonds coupled with the concentration of debt service, bond issuance showed a larger increase. [27] The last stage is from 1998 till today, in order to boost domestic demand and cope with the impact of the Asian financial crisis for China's economy, China has implemented a proactive fiscal policy, it resulting in the issuance of treasury bonds in 1998 as high as 331.093 billion Yuan, an increase of 33.7% over the previous year since the annual issuance of treasury bonds has been rising. In 2003, the total issuance of government bonds reached 635.5 billion Yuan, setting a new high of the total issuance of government bonds.

The type of government bonds in China

Bearer from bond, it is a bond that doesn't record the name or unit name of the creditor, usually in the form of a voucher, also known as a voucher or Treasury bill. A physical bond is a bond with a standard format. At the present stage of type of bonds in China, the barer from bonds belongs to this kind of bonds, it is in the form of physical vouchers creditor's rights, face value, etc., bearer, no loss, can be traded. The general characteristics of the bearer from bond are: bearer not reported loss, can be listed circulation. Due to bearer and do not report loss, it is less secured than certificate treasury bonds and inscribed bonds, but because of the simply procedures of the purchase, at same time due to it can be transferred easily, it has strongly liquidity. The price of the listing transfer depends on the supply and demand of the secondary market. When the market factors change, the price will have a greater fluctuation, so it will have the opportunity to obtain the big profit, and also with the certain risk. In general, unsigned treasury bills are more suitable for financial institutions and investors with strong investment awareness.

Certificate Treasury Bonds, it refers to the state to take non-printed physical vouchers, and fill the "Treasury bills vouchers" issued by the way of the bonds. Voucher-style bonds is quite similar with savings, but also better than the characteristics of savings, often referred to as "saving bonds", is the purpose of savings for individual investors the ideal way of investment. Compared with savings, the main features of voucher-style bonds are safe, convenient and affordable. It can be said as following tips: Firstly, the interest rate is higher than the bank deposit rate of the same period 1-2 percentage points, in advance by the holding time to take progressive interest rate interest. Secondly, certificate treasury bonds can't trade in the market, but it can be redeemed in advance, can be transferred in to cash very flexible, if investors have special needs it can redeemed into cash at every moment. Thirdly, the risk of the certificate treasury bonds is very low, the amount of interest is equal to or equal to the same period the deposit interest rate, there is no regular savings deposits in advance to pay the risk of interest only on demand. Last but not least, there is no market risk, certificate-based bonds can't be listed, and the price (principal and interest) in advance is no subject to changes in market interest rates and can avoid market price risk.

Therefore, the purchase of vouchers can be considered a safe, flexible, affordable investment on the ideal way, is the advantages of treasury bonds and savings in one of the investment varieties. Vouchers can be close to the banks to purchase the savings outlets.

Inscribed treasury bonds, refers to the absence of physical form of the ticket, but in the computer account for the record, and though the stock exchange to trade. If an investor trades inscribed treasury bonds, an account must be set on the stock exchange. Therefore, the bookkeeping bonds, also known as paperless bonds. Bookkeeping bonds have the characteristics of low cost, good income, good security and strong liquidity.

Saving bonds, is the government for individual investors issued to absorb personal savings funds for the purpose of long-term savings to fulfill the needs of the flow of non-negotiable treasury bonds. Electronic savings bonds are electronically recorded debt savings bonds. Compared with the traditional savings bonds, electronic savings bonds are richer, more convenient to buy, more flexible interest rates. Because of its non-tradable, it will be decided to have nothing for the capital gain. This is the same as the certificate treasury bonds, mainly to encourage investors to hold the due date.

Following Table 3.2 shows the scale of different type of bonds in China.

Table 3.2 Scale of different type of bonds in China

Units: billions of Yuan

	2017(till Feb.)		2016	
	times	Issuance number	times	Issuance number
add	171	9427.83	2,953	141,408.69
Government bonds	23	3,205.82	1,298	89,886.10
Book-entry T-bonds	20	3,060.00	130	27,465.80
Saving bonds	0	0.00	10	1,991.89
Local government bonds	3	145.82	1,158	60,428.40
Central bank bills	0	0.00	0	0.00
Policy bank bonds	89	4,951.50	624	33,470.00
China development bank	39	2,744.50	246	14,756.00
Export-import Bank of China	23	930.00	127	6,330.00
Agricultural Development Bank of China	27	1,277.00	251	12,384.00
Commercial bank bond	6	454.00	65	3,657.00

Source: China bonds (<http://www.chinabond.com.cn/>)

3.2.3 Corporate bond

The corporate bond market development process in China

China begin to issue corporate bonds in 1983 onwards, at that time the main issue is large state-owned enterprises, the industry is mainly concentrated in the transportation, energy and other national projects. The embryonic stage of Chinese corporate bonds happens in 1984, the government does not regulate the production of corporate bonds, nor does it establish corresponding laws and regulations. By 1987-1992, the Chinese government promulgated the first regulations and deteriorated the plans for the issuance of corporate bonds. 1993-1995 China began to rectify some

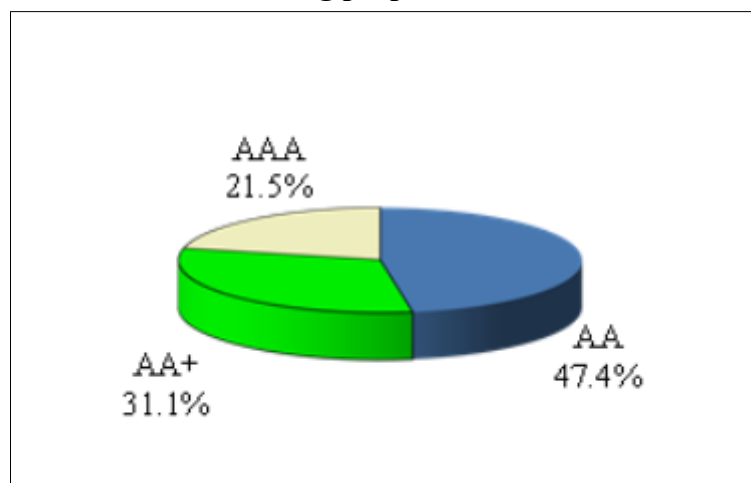
of the non-standard operations in the corporate bond market to classify corporate bonds as central corporate bonds and local corporate bonds. Since 1996, the development of corporate bonds in China has gradually stabilized, and the State Council has approved the trading activities of China Securities Regulatory Commission to supervise corporate bonds.

General view of corporate band market in China

The development of China's bond market has undergone a process from the planned management model to the market regulation mode. As a resource allocation, the role of the government's macroeconomic control measures has been strengthened. However, the scale of the issue point of view, treasury bonds are still occupied a main position, followed it is financial bonds. In recent years, corporate bonds have been restorative development, but relative to the national debt, financial bonds and the stock market, corporate bond issuance market is still significantly behind.

Following figure 3.7 presents bonds rating proportion.

Bonds rating proportion in China



Source: China bond <http://www.chinabond.com.cn/>

Following Table 3.3 shows the issuance situation of bonds market in Jan.2017 to July 2017

Table3.3The product of corporate bonds in China (1/2017—7/2017)

Bonds type	Jan.2016 to Jul.2016 period	Jan.2015 to Jul.2015 period	Year to year	The scale during Jan.2016 to Jul. 2016	The scale during Jan.2015 to Jul. 2015	Year to year
Corporate bond	312	179	74.3%	3781.90	1971.62	91.82%
Enterprise bonds	550	78	605.13%	8531.39	1256.64	578.90%
Private placement of bonds	784	162	383.95%	4892.58	562.91	1408.69 %
Bonds of security bonds	75	212	-64.62%	1950.30	6975.20	-72.04%
Convertible bonds	11	2	450%	212.52	84.00	153.00%
Exchange bonds	19	11	72.73%	159393	84.40	89.49%
total	1751	644	171.8%	23128.62	10934.77	111.51%

Source: China bond <http://www.chinabond.com.cn/>

According to the way of interest, Chinese corporate bonds can divide into zero coupons (due to pay the principal and interest) interest-bearing bonds (annual interest payments, due to repayment). The bonds issued before 1998 are basically zero-coupon bonds, after which the bonds with a maturity of more than five years are basically bonds. According to the deadline for the length of time, corporate bonds can be divided into long-term bonds, medium-term bonds, short-term bonds. The general size of 100 million Yuan in the following corporate bonds are within 3 years, 500 million Yuan of corporate bonds are generally 3 to 5 years, more than 500 million Yuan in more than 5 years. With the extension of government bonds and policy financial bonds, most companies began to issue long-term fixed-rate bonds.

3.2.4 Private equity

With the continuous development of China's economy, the focus of market construction from the field to the outside of the advance, from the public to raise private equity, China's private market is constantly developing and growing. From the type of new fund-raising point of view, in last three years the number of new funds in the growth fund and the amount accounted for more than half, and the increase in the fund in these funds in the growth rate significantly. In addition, the proportion of real estate funds decreased, but the proportion of mergers and acquisitions fund has a clear

upward trend. In 2014, the real estate fund raised [27] a total of 126, and in these funds raised 121 funds raised a total of 10.439 billion US dollars, raising the number of funds fell 4.55% year by year, raising the total amount fell 2.1%, mergers and acquisitions fund jointly raised 68, Raising a total of \$ 6,650 million, compared to 19 last year with \$ 2.57 billion to achieve substantial growth. From the perspective of the new fund, the raising fund of RMB boom continued strongly, and also has absolute advantage in its number, but in the average fund-raising scale, the RMB fund is always far from the foreign currency funds.

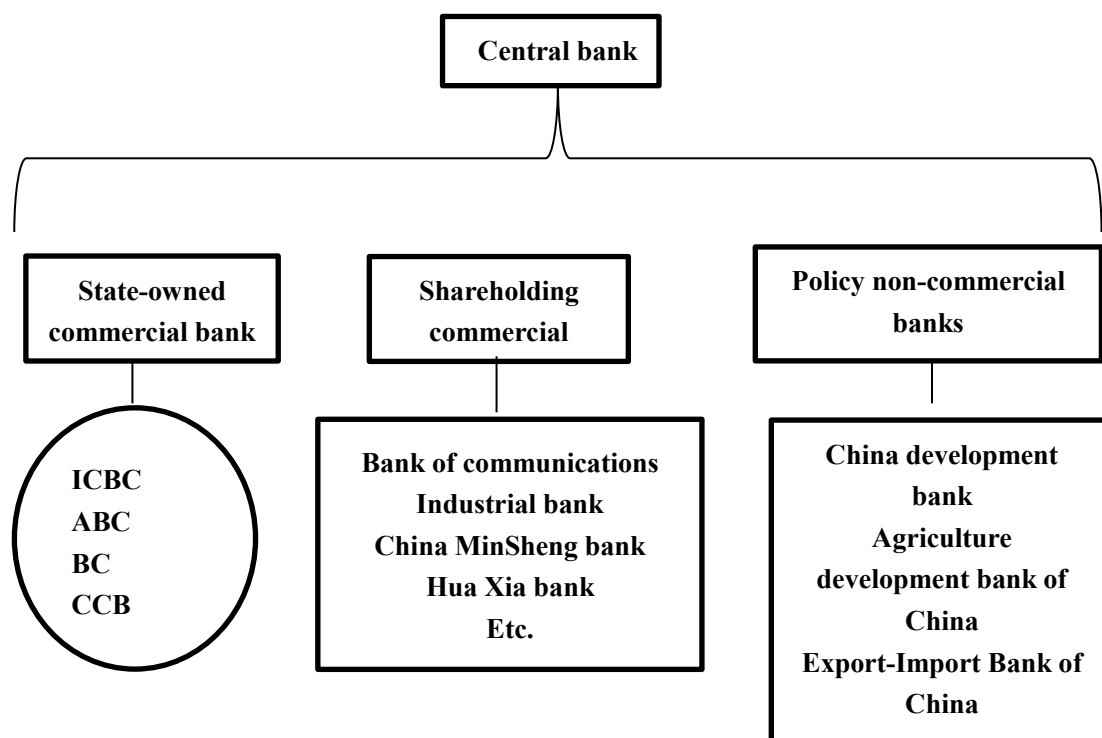
There still have lots of problem in China's private equity funds, firstly, as China's private equity market active areas of focus mainly for the traditional industries, but the foreign private debt market is mainly concentrated in the innovation industry, so that the technical innovation of high-paying technology industry is relatively lack of funds, it will be detrimental to China's high-paying technology Industry and the long-term development of small and medium enterprises, at the same time led to the lack of private equity investment innovation industry. Secondly, the mechanism of regulation is not perfect, private equity market involves raising funds and investment activities, its scope is very wide, so it involves many different departments, because China's private equity fund is regulated by the government departments, in the government sector supervision happens lot of loopholes, Such as the management of private equity funds will appear when the overlap of authority, this will lead to the lack of regulatory legal basis, the main body of the regulation is not clear, the specific regulatory mechanisms involved in inadequate and government supervision and self-regulatory responsibility is not clearly unclear, in the actual operation of the private equity investment fund will be troubled. Thirdly, the mechanism is not perfect in China, the preferred way to launch private equity is IPO, but private equity investment in many companies are not up to the requirements of the mainboard market, and the introduction of the GEM is late, short-term private equity pressure mitigation is limited, making the exit of venture capital funds before the channel is always poor. This kind of highly dependent on the way of the IPO will affect the rate of return on private equity funds, coupled with the current development of many of China's market is still imperfect, leading to China's private equity investment funds exit channels narrow.

3.3 Bank system in China

China has a bank-based financial system, with a more complete financial system. In the bank-based financial system, the banking system is developed, and the external sources of funds are mainly through indirect financing. Banks play a major role in mobilizing savings, allocating funds, supervising investment decisions of corporate managers and providing risk management tools. In the banking-based financial system, banks play a leading role in transforming savings into investment, allocating resources, controlling business and providing risk management tools; banks use their own advantages in terms of capital, talent, information, etc. Extensive participation in economic life, promote economic development.

Following Figure 3.8 shows the structure of China's bank system.

Figure 3.8 The structure of Central bank



Source: Own table

3.3.1 Central bank in China

The People's Bank of China is the central bank of the People's Republic of China, one of the constituent departments of the State Council of the People's Republic of China, which was formed on December 1, 1948. The People's Bank of China shall, in accordance with the provisions of the Law of the People's Republic of China on the People's Bank of China, carry out its monetary policy, perform its duties and conduct business independently of the local government, government departments at all levels, social organizations and individuals under the leadership of the State Council. The head office of People's Bank of China is located in Beijing, and on August 10, 2005, Shanghai Branch of the People's Bank of China was established in Shanghai

- With the improvement of the socialist market economic system, the PBC, as a central bank, will play an even more important role in China's macroeconomic management. The amended Law of the People's Republic [28] of China on the People's Bank of China, adopted by the 6th meeting of the Standing Committee of the 10th National People's Congress on December 27, 2003, provides that the PBC performs the following major functions: Drafting and enforcing relevant laws, rules and regulations that are related to fulfilling its functions.
- Formulating and implementing monetary policy in accordance with law.
- Issuing the RMB and administering its circulation.
- Regulating financial markets, including the inter-bank lending market, the

inter-bank bond market, foreign exchange market and gold market.

- Preventing and mitigating systemic financial risks to safeguard financial stability
- Maintaining the RMB exchange rate at adaptive and equilibrium level; Holding and managing the state foreign exchange and gold reserves.
- Managing the State treasury as fiscal agent.
- Making payment and settlement rules in collaboration with relevant departments and ensuring normal operation of the payment and settlement systems.
- Providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement.
- Developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast.
- Administering credit reporting industry in China and promoting the building up of credit information system.
- Participating in international financial activities at the capacity of the central bank.
- Engaging in financial business operations in line with relevant rules.
- Performing other functions prescribed by the State Council.

The central bank has the ability to maintain financial stability and to facilitate the implementation of financial regulation by monopolizing the cash issuance rights. Financial regulation is an administrative power, it can also exist relatively independently, so countries according to their history, culture, political economy and financial different situations have different regulatory models. The development of global financial innovation and the development of financial comprehensive management trends and the tremendous changes in the financial business brought about by the electronic technology in time and space have made the professional standards of financial supervision more and more demanding. In order to adopt the changing situation, the People's Bank of China has improved and implemented the monetary policy function continuously, the state is constantly adjusting the financial regulatory system.

Changes in function

The original duties of the People's Bank of [8] China mainly include the formulation and implementation of monetary policy, the implementation of financial supervision and the provision of financial services in three areas. After the revision, the functions of the People's Bank of China will become three aspects: the formulation and implementation of monetary policy, the maintenance of financial stability and the provision of financial services. From here we can see that the central bank's function is mainly due to the original "implementation of financial supervision" has become "to maintain financial stability." In fact, the implementation of financial regulation by a specialized agency, both means that the strengthening of the regulatory work, but also means that the central bank will further strengthen its monetary policy functions.

- To strengthen the People's Bank of China to develop and implement monetary policy functions. Approved by the State Council, the People's Bank of China set up monetary policy committee, as the People's Bank of China to develop monetary policy advisory body The main responsibility of the Monetary Policy Committee is to discuss the formulation and adjustment of monetary policy, the use of monetary policy instruments, the coordination of monetary policy and other macroeconomic policies, and other major issues involving monetary policy in accordance with the national macroeconomic control objectives. After adjusting the functions of the People's Bank of China, it can be more focused on fulfilling its financial macro-control functions.
- By the banking financial institutions to set up approval, business approval and senior management qualification and daily supervision and management of direct supervision of the functions of the financial industry to fulfill the macro-control and to prevent and resolve the systemic risk of the function, that is, to maintain financial stability function. Financial stability is a broad concept, a state of financial operation. In the past, the People's Bank of China was responsible for formulating and implementing monetary policy and fulfilling the duties of financial supervision and maintaining the responsibility of financial stability in the duties of the People's Bank of China. [1] Now, the People's Bank of China will no longer perform supervision and management duties on market access and business scope approval of banking financial institutions. Maintaining financial stability mainly includes the following aspects. Firstly, as the lender of last resort when necessary to rescue high-risk financial institutions, Secondly, share regulatory information to take various measures to prevent systemic financial risks. Last but not least, the State Council to establish regulatory coordination mechanism. The People's Bank of China under the leadership of the State Council to prevent and resolve financial risks, maintain financial stability, according to the law to monitor the operation of financial markets, the implementation of macro-control of financial markets to promote its coordinated development; when the banking financial institutions to pay difficulties, may lead to financial risks In order to maintain financial stability, the People's Bank of China, with the approval of the State Council, has the right to supervise and supervise the banking financial institutions. [1] The People's Bank of China as the central bank of our country is the bank's bank, the government's bank and the issuing bank, the means of the lender of last resort, has the means to maintain the national financial stability, thus bear the financial stability function. The People's Bank of China as the central bank of our country is the bank's bank, the government's bank and the issuing bank, the means of the lender of last resort, has the means to maintain the national financial stability, thus bear the financial stability function. But People's Bank of China can't easily use the ways of the final lender to achieve the goal of maintaining financial stability, otherwise it will produce moral hazard, damage to the basis of social credit, only in this way can take various measures to prevent systemic financial risk to maintain financial stability.

3.3.2 Commercial banks in China.

- Following key-point will be illustrated in each paragraph
- State owned commercial bank
- Shareholding commercial bank
- The Development of shareholding Commercial Banks in China

State owned commercial bank

State-owned commercial banks are mainly composed of Agricultural Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and Bank of China, these banks in different areas of China industry plays a very important role. The four banks are also the fundamental of the Chinese banking system, and I will introduce the main function of top four banks in China as follows.

First is Agriculture bank of China, the main responsible is the implementation of saving and lending in the vast rural areas, Agricultural Bank of China is one of the four state-owned commercial banks, is an important part of China's financial system. The Agricultural Bank of China branches throughout China's urban and rural areas, becoming the largest domestic network and the most extensive range of business radiation large state-owned commercial banks. The business areas of ABC are from the initial rural credit settlement business developed into a full range of foreign currency can be combined with international and domestic access to all types of financial business. In overseas, the ABC also through their own efforts to win a good reputation, and "Fortune" listed it as one of the world's top 500 enterprises. By the end of 2004, the total assets of the Agricultural Bank of China amounted to 4013.769 billion Yuan, the balance of the loans was 259.072 billion Yuan, the balance of deposits was 349.549 billion Yuan, and the operating profit was 31.974 billion Yuan.

Relying on the local network, using the world's cutting-edge technology, Agricultural Bank of China built the largest domestic financial electronic network, to achieve the national settlement of the settlement business. The pace of information construction is accelerating, the comprehensive strength of information construction has been obviously enhanced, and the data of the whole bank has been progressing smoothly. The total data of the head office data center is about 8 million.

Second is Bank of China. Bank of China, or Bank of China Limited in full, is one of China's four state-owned commercial banks. Its businesses cover commercial banking, investment banking and insurance. Members of the group include BOC Hong Kong, BOC International, BOCG Insurance and other financial institutions. The Bank provides a comprehensive range of high-quality financial services to individual and corporate customers as well as financial institutions worldwide. In terms of tier one capital, it ranked 18th among the world's top 1,000 banks by The Banker magazine.

The Bank is mainly engaged in commercial banking, including corporate and retail banking, treasury business and financial institutions banking. Corporate banking is built upon credit products, to provide customers with personalized and innovative

financial services as well as financing and financial solutions. Retail banking serves the financial needs of the Bank's individual customers, focusing on providing them with such services as savings deposit, consumer credit bankcard and wealth management business. Treasury business includes domestic and foreign-currency trading and investment, fund management, wealth management, value-secured debt business, domestic and overseas financing and other fund operation and management services. Financial institution banking refers to services offered to banks, securities brokerages, fund companies and insurance companies worldwide ranging from clearing, inter-bank lending to agent and custodian services. As a Chinese financial institution with a history of almost a hundred years, the Bank is well known for its continuous business innovations, introducing many brand new products and services in the domestic banking industry, while paying regard to the need for prudence in its operations. It is widely recognized and commended by its peers and customers in international settlement, foreign exchange, trade finance, etc.

The third one is industries and commercial bank of China. Industrial and commercial Bank of China is the largest state-owned commercial banks in China, the basic task is through domestic and foreign financing activities to raise social funds to support enterprise production for China's economic construction services. The main options in ICBC are processing of urban savings deposits, the absorption of industrial and commercial enterprises deposits, the issuance of financial bonds; management of industrial and commercial enterprises and relevant departments of the various specialized funds and commissioned, agents, leasing, consulting and other business.

The last one is China Construction Bank. The main options for China Construction Bank are dealing with credit funds loans, household savings deposits, foreign exchange business, credit card business, and policy of housing reform financial and personal housing mortgage and other business.

Shareholding commercial bank

Shareholding commercial banks are non - state - owned capital banks. In view of the nature of public ownership of state-owned commercial banks, shareholding commercial banks belong to the shareholding system. There are 13 shareholding commercial banks approved by China Banking Regulatory Commission, including CITIC Bank, Everbright Bank, Huaxia Bank, Guangdong Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, MinsSheng Bank and Hengfeng Bank.

The Development of shareholding Commercial Banks in China

From the external market environment to analyze, the four state-owned commercial banks still occupy the dominant force in the market, the major industries, excellent enterprises, especially the government key construction projects have been dominated by state-owned commercial banks. State-owned commercial banks are large-scale and sound in the network, the level of hardware implementation is high, and then the strength of the market is strong. In other words, the state-owned holding

enterprises are more competitive than the shareholding commercial banks in the traditional business. The second point is that after China's accession to the WTO foreign banks to join the competition with the fierce. Thirdly, the shareholding commercial banks have their own problems. Due to the lack of outlets, the ability to organize deposits has been restricted, and the shareholding commercial banks in China have started late. The supervisory institutions have strictly approved and controlled the joint-stock commercial banks. Fourthly, the most significant characteristic of commercial banks is the high risk. Therefore, the risk management of commercial banks is very important. At present, most commercial banks in China have not established a complete set of risk control system. For the risk of financial innovation And credit risk still has a lot of regulatory loopholes, and as the banking business continues to develop a bank the potential risk is more and more complex. In general, the shareholding banks whether in the development process or the scale of the state-owned commercial banks have no advantage compare with the state-owned commercial banks.

Policy non-commercial banks

A policy bank is an institution that is financed by a government and financed to finance and carry out credit and credit activities to implement and cooperate with government-specific economic policies and intentions. The emergence and development of policy banks is the product of state intervention and coordination of the economy. Policy banks and commercial banks and other non-bank financial institution have a common side, such as the loan to conduct a rigorous review of the loan to pay the principal and interest, turnover, etc. but as one of the financial policy institution it has its own characteristic: Firstly, the capital of the policy banks is financed by the government finances. Secondly, the policy banks mainly consider the overall interests of the country, the social benefits, not the profit as the goal, but the policy banks are not financial funds, policy Banks must also consider the profit and loss, adhere to the basic principles of bank management, and strive to protect the profitability. Thirdly, policy banks have their specific sources of funds, mainly rely on the issuance of financial bonds or to the central bank debt, generally not for the public to absorb deposits; Fourthly, the policy banks have a specific business areas, not with commercial banks. In China there are three different type of policy non-commercial bank here is China development bank, Agriculture development bank of China, Export-Import Bank of China. Both of them have their own functions in economic in China. China Agricultural Development Bank is directly under the leadership of the State Council of China's only one agricultural policy banks. The main duties are in accordance with the national laws, regulations and policies, to the national credit as the basis, to raise funds to assume the national provisions of the agricultural policy of financial business, agency financial support for agricultural funds for agriculture and rural economic development services. China Import and Export Bank are an important force of our foreign economic and trade support system and an important part of the financial system. It is the main channel of policy financing of China's mechanical and electrical products, complete sets of equipment and high-tech products export and

foreign contracted projects and various overseas investment. Government loans and the main credit lender of the Chinese government foreign aid loans. Which plays an increasingly important role in promoting the development of China's open economy, the main responsibility of the Export-Import Bank of China is to implement the national industrial policies, foreign trade policies, financial policies and foreign policy, to expand China's mechanical and electrical products, complete sets of equipment and High-tech products exports, to promote comparative advantages of enterprises to carry out foreign contracted projects and overseas investment, promote the development of foreign relations and international economic and trade cooperation, to provide policy financial support.

3.4 Stock market in China

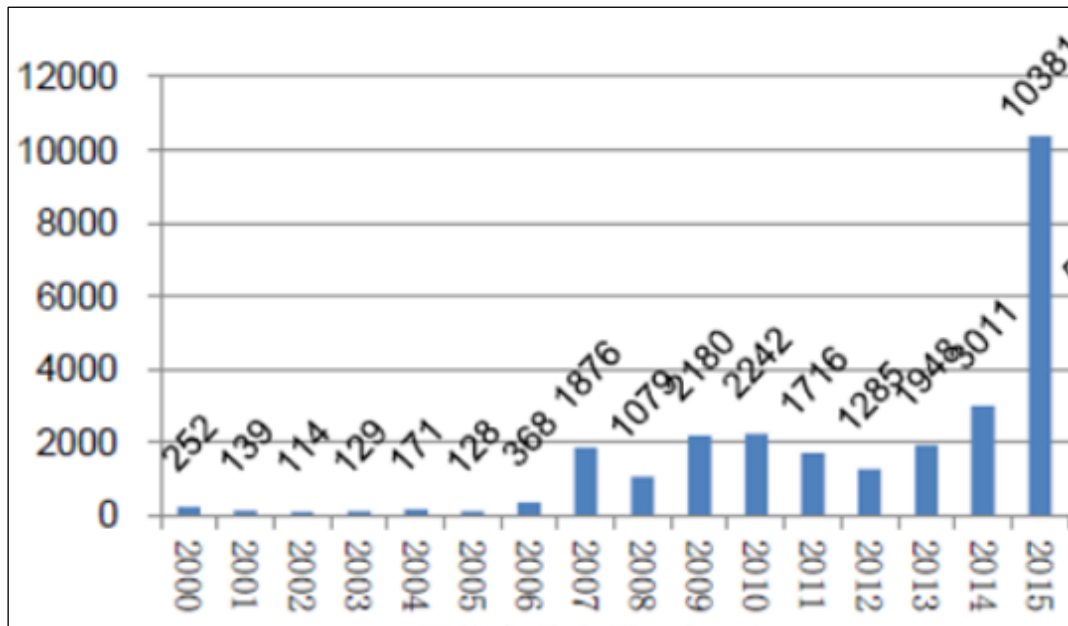
3.4.1 The scale of stock market in China

As we all known the stock market in a countries' financial system can be seen as weather forecast, even in some countries the stock market has occupied important position. Following explanation are general situation of stock market in China.

The formation of China's stock market began in the early 1990s; the formation of the sign is the establishment [1] of the Shanghai and Shenzhen Stock Exchange. The Shanghai Stock Exchange was established in 26th Nov. in the same year Shenzhen Stock Exchange was established on December 1, 1991. After 19 years (1990-2008) the development of China's GDP in the context of sustained and rapid growth, the scale of China's listed companies continue to expand, the size of China's stock market has also been the development and growth, the companies listed in Shanghai and Shenzhen stock market increased from 9 in 1990 to 1584 in 2008, Shanghai and Shenzhen stock market issued a total of 1956 of which only 1575. A-share plate (Shanghai Stock Exchange A shares 844 Only the Shenzhen Stock Exchange A shares 731) small and medium-sized business sector 273, B shares plate 108 (Shanghai Stock Exchange B shares 53; Shenzhen Stock Exchange B shares 55). In 19 years, due to various reasons, the scale of the development of listed companies in China showed an unstable trend, the number of companies that listed in Shanghai and Shenzhen over the decade years became the different, even in the individual year there is a huge difference. The amount of funds raised by the first issue of shares of listed companies has a very important impact on the planning and implementation of the development strategy of listed companies. The amount of funds raised by the first issue of Chinese listed companies is largely constrained by the system design, policy changes and market operation rules of the Shanghai and Shenzhen stock markets. There is a huge difference in the amount of capital raised by listed companies in different years, especially in recent year; the initial increase in the amount of funding is very alarming, since 1990, China's listed companies in the Shanghai and Shenzhen stock market a shares to raise the total amount of funds accumulated to 1,196,795,000,000 Yuan.

Following Figure 3.9 shows the average daily volume of A-share stock.

Figure 3.9 Average daily of a-share stock from 2000 to 2015

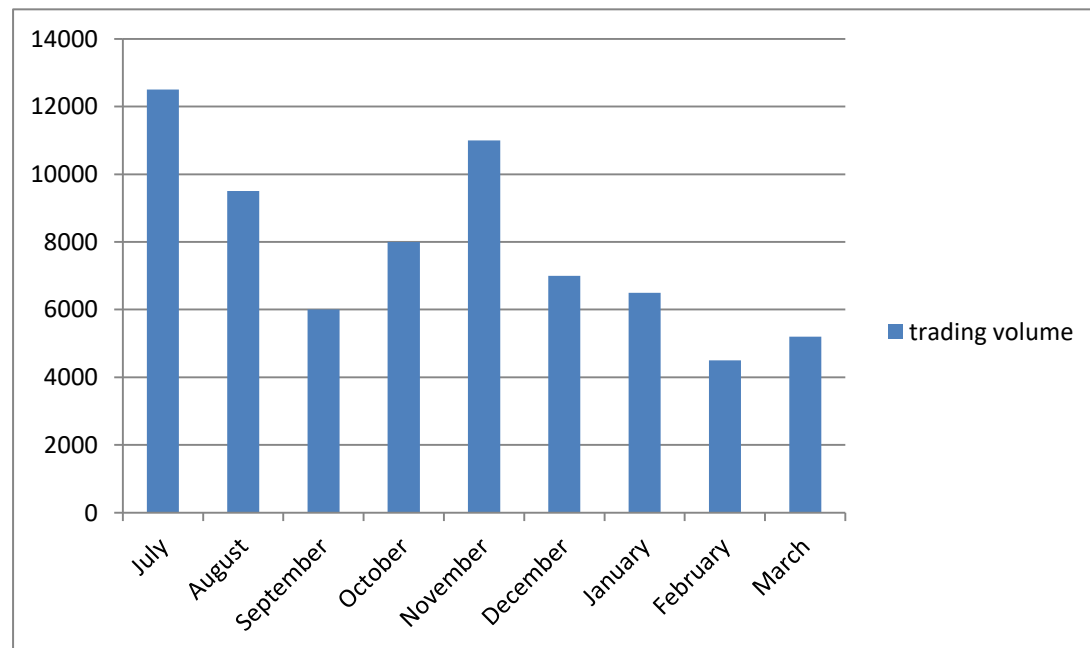


Source: National Statistics Bureau (<http://www.stats.gov.cn/tjsj/>)

It can clear see that the great change of stock market in China, the size of the whole market become larger than the beginning of establishment, at the beginning of the market the average daily volume of A-shares are just 252 and when times flies the average daily volume in 2015 reached 10381, but here still have a phenomenon that is the situation is not very stable we can see from the chart that the increasing volume of every year is not very stable that the last year.

Following Figure 3.10 shows the instability month trading volume after the stock market crash in 2015.

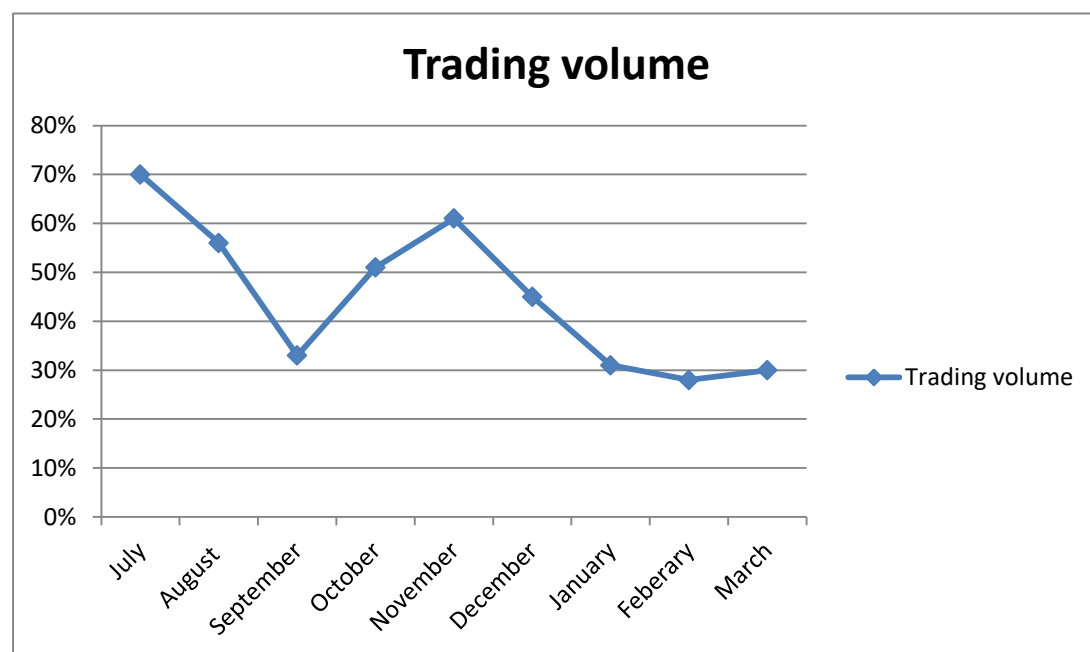
Monthly trading volume after the stock disaster in Chinese stock market



Source: Source: Stock market of China (<http://www.stats.gov.cn/tjsj/>).

Following Figure 3.11 shows the instability month trading volume after the stock market crash in 2015.

Figure 3.11 Monthly trading volumes after the stock disaster in Chinese stock market



Source: Stock market of China (<http://www.stats.gov.cn/tjsj/>)

The chart shows the monthly change in trading volume we can clearly see that whatever the green line or the blue pillar that the trading volume is very instability. But the stock market for China still very young, it have a long space to development.

Although the stock market in China is very young but the increased trend of stock market is still very rapid. In 2015 the market value of stock market in China surpassed Japan as the second largest in the world after the USA.

Following Figure 3.12 shows the stock market in China surpassed Japan.

Figure 3.12 China's stock market capitalization overtakes Japan's



Source: Financial times 27th 11 2017 FASTFT
<http://www.ftchinese.com/story/001059360>

3.4.2 Gold exchange in stock market of China

Shanghai Gold Exchange market (SGE) is the only national level exchange market of gold trading. Since its official opening in October 2002, its founded under the approval of State Council and established [29] by the People's Bank of China, SGE has successfully brought market-oriented reforms to the production, consumption and circulation of gold in China, becoming a key symbol of liberalization of China gold market.

During the 15 years since its foundation, SGE has been committed to serving the real economy, supporting the development of the gold [29] industry and creating diversified investment channels for investors. SGE has become the backbone and central hub of China's gold market and a vital exchange market in the world for gold, silver, platinum and other precious [29] metals. Since 2007, SGE has been the world's largest physical gold market for ten consecutive years.

Following Figure 3.13 shows the trading volume of the SGE.

Figure 3.13SGE trading volume Jan-Jun 2016

Units: Kg

Trading volume	Annual	Jan	Fen	Mar	Apr	May	Jun
Au9995	483642	55164	48494	44978	43372	34570	38442
Au9999	5951760.7 6	627753.3	342913.3 8	593735.9	501707.9 4	533779.7 8	565401. 4
Au100g	15533.6	1179.2	1501.2	1446.8	811	986.2	1506.2
iAu100g	35	0.8	4.8	45.4	1.8		6.4
iAu9999	377873.62	10027.98	3829.9	24332.72	84357.78	44702	8917.4
Au(T+D)	18371984	1377666	1231174	1972766	1373528	1708376	182604
MAu(T+D)	1796432	79389.8	102104.6	194699.6	142401.6	155764.4	203819. 8
Au(T+N1)	1752867.4	141752.4	118394.4	215773.6	145853.2	203120.8	83559.8
Au(T+N2)	1665068	100891.8	128644.4	197240.4	117840.8	171893.6	136702. 2
PAu9995	510472	47640	9134	91682	74864	43722	12076
PAu9999	14159315. 0	816356.6	753112.6	1722665	1666844. 6	1697642. 2	1325333 .4
PiAu9999	3022382.1 8	143316	5680	61600	93200.04	120000	518400
SHAU	569190						
Gold total	48676555. 76	3401137. 88	2796107. 28	5120925. 42	4298024. 76	4805268. 98	4807806 .6

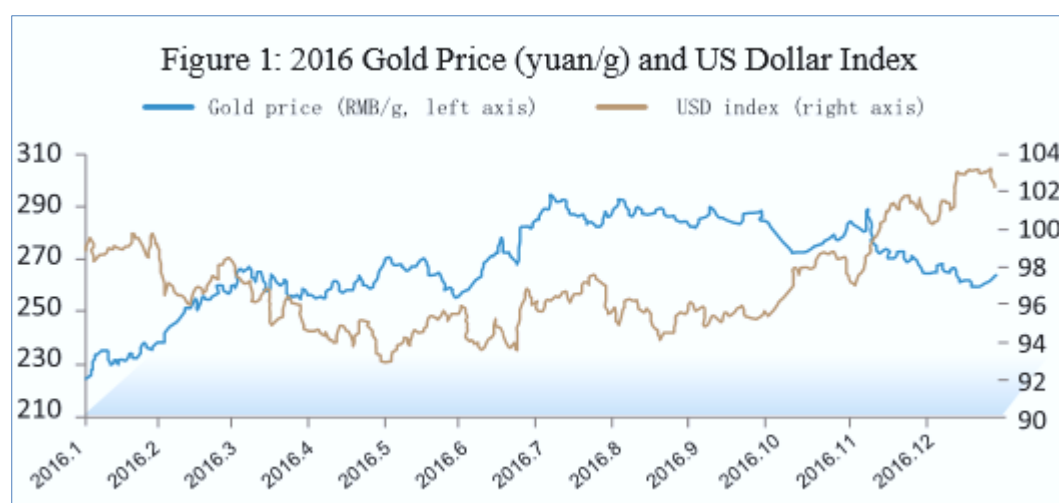
Source: shanghai gold exchange (<http://www.sge.com.cn/cpfw/gjb>)

As for the end of 2016, SGE had a total of 253 members, including 167 financial general and proprietary members, 19 special members and 67 international members. Domestic members make up 90% of the total national gold production and consumption and 95% of the total national [9] gold refining capacity. International members include leading international banks, gold industry multinationals and investment institutions. By the end of 2016, SGE had 10808 institutional customers and 8.91 million individual investors.

After over a decade of efforts, SGE has established a multi-layer gold market system, comprising price matching, price inquiry, Shanghai Gold Benchmark Price and gold leasing markets in terms of trading modes and featuring the integration of the domestic main board with the international board. The price matching market is currently the largest in terms of trading volume, wherein financial institutions, gold producers, gold consumers and other institutional investors and individual investors can trade in 16 physical, spot and deferred products in gold, silver and platinum through its matching system. The price inquiry market, serving as an important platform for institutions to trade in customized derivatives, offers a wide range of products, mainly including spot, forward swap and options for gold. The rapid increase in the trading volume over recent years has made the price inquiry market an important component of SGE's trading market. The leasing market is positioned to support interbank gold leasing transactions and gold leasing transactions between banks and enterprises. It represents a bold innovation of SGE in explores ways to support the development of gold producers and consumers and allow the gold market to better perform its investment and financing functions.

Following Figure 3.14 shows the gold price and the USA dollar Index.

Figure 3.14 2016 Gold Price (Yuan/g) and USA Dollar Index



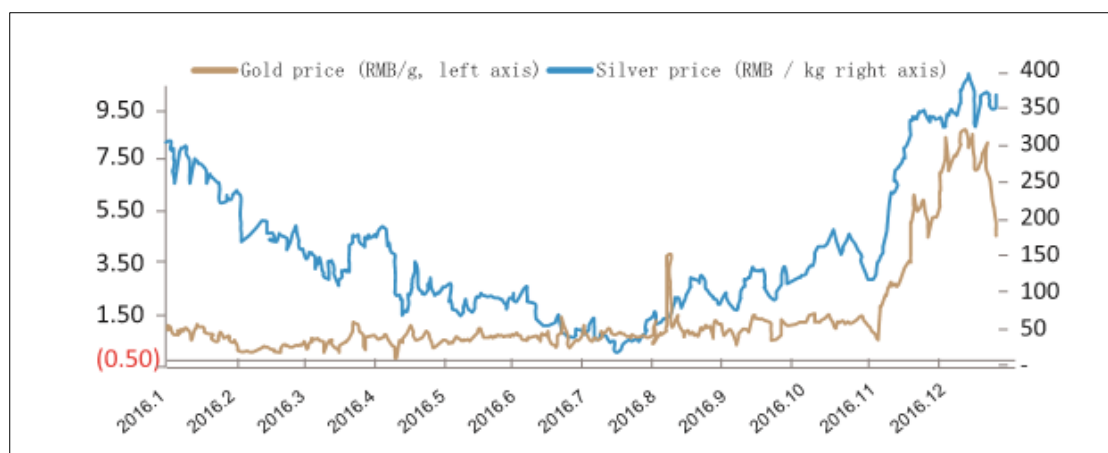
Source: Shanghai Gold Exchange (<http://www.sge.com.cn/cpfw/gjb>).

Gold price rebounded and the spread between domestic and international gold price became bigger. In 2016, recovering from a four-year downward trend since 2012,

gold price experienced a strong rebound. The rebound started from the beginning of the year. After two rounds of sharp rise in February and June, gold price hit a record high in July since April end of 2016, the London Gold Fixing was 1,189.1 USD/ounce, up by USD96.85 or 9.12% from the end of 2015. SGE's Au99.99 had an opening price of 222.86 Yuan/g at the beginning of the year, a yearly high of 300Yuan/g, a yearly low of 181.2 Yuan/g, and a year-end closing price of 263.9 Yuan/g, an increase of 18.42% during the entire year. Its volume weighted average price was 266.8Yuan/g, a year-on –year increase of 13.40%.

Following Figure 3.15 shows the spread of silver and gold price between domestic and international.

Figure 3.15 2016 Spread between domestic and international gold and silver price



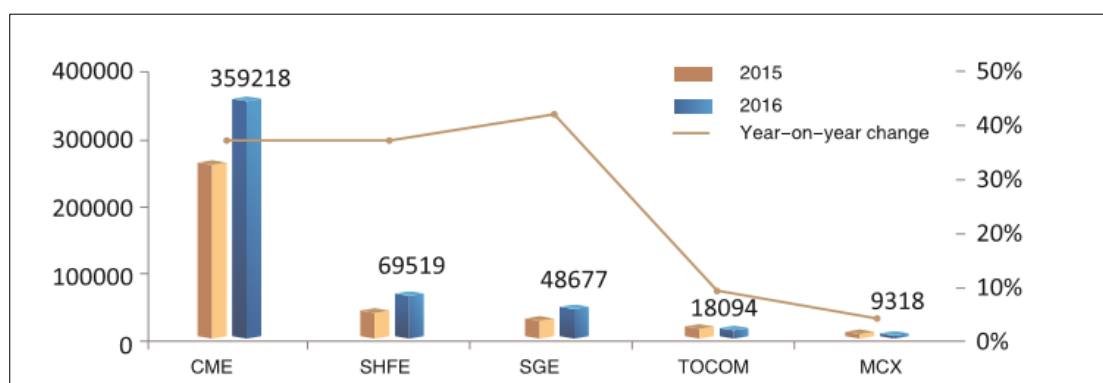
Source: Shanghai Gold Exchange (<http://www.sge.com.cn/cpfw/gjb>).

It can be seen in the figure that in 2016, the spread between domestic and international gold price averaged at 1.46 Yuan/g, up by 89.6 from the previous year.

There is another characteristic of SGE change in recent year, that is, global gold market improved generally and China's gold market witnessed the largest growth.

Following Figure 3.16 shows this type of change.

Figure 3.16 Rankings of the World's major exchanges by gold trading volume (metric tons).



Source: Shanghai gold exchange (<http://www.sge.com.cn/cpfw/gjb>).

Global gold markets experienced general growth in trading volume. Gold trading volume of exchange-traded markets showed substantial increase compared with 2015. Specially, SGE, COMEX, TOCOM and MCX reported a year-on-year increase of 42.88%, 37.74%, 9.5% and 5.01% respectively, with SGE ranking first in year-on-year growth rate and third in gold and silver trading volume. OTC markets mainly including the London Gold Market grew at a rate lower than exchange-traded markets.

3.4.3 New development of stock market in China

In order to provide more investment opportunity to global gold market, and also help gold market in China can enter the global market more easily, in September 2014 SGE explode SEG international, it is the first financial assets transaction platform in shanghai free trade zone. Investor from all over the world can use offshore RMB or exchangeable currency trading with SGE through TF account, and this action connected with the foreign gold market it also make the gold exchange as a one. With more and more partner and investor join in, shanghai SEG can be one of gold pricing center after London and New York.

3.5 The characteristic of financial system in China

Firstly, according to institutional classification, divided into policy banks, state-owned commercial banks, joint-stock commercial banks, urban commercial banks, urban credit cooperatives, rural credit cooperatives, foreign bank securities companies, fund management companies futures brokerage firms, trust and investment companies, insurance companies, financial leasing companies, corporate finance companies, asset management companies, etc. The financial system in China is much more complicated than before. Followed by the market classification, we can also divided

the whole market into stock market, bond market, other bond market stock exchanges, inter-bank bonds and money markets, foreign exchange market, futures market gold market. According to the division of business, China is a very typical bank based financial system, divided into banking, securities, insurance, and finally classified according to the characteristics of the system, can also be holding, expect for foreign capital, in general, these categories of China are more chaotic, repeat and poor.

4 Financial system of USA

4.1 General view of financial history in USA

4.1.1 Early stage of financial history in the USA

The early period of America doesn't have its own currency, instead of that people prefer to use Spanish dollar to be their currency, moreover it become the main currency as bank reserve. Promissory note which is issued by bank is circulate as universal equivalent, but this action still has its own shortage that is at early period of America the financial condition of bank is unstable, hence, the wealth of promissory note of bank is fluctuating all the time, for this reason cause lots of inconvenient. This circumstance get worse and worse after the USA suffered from war of independence.

At that time, the Treasury Secretary Hamilton strongly recommended to let Congress set up a private central bank to thoroughly fulfill the duties of issuing money and promulgated the "coinage" to determine the monetary position of the dollar. Central bank is privately owned (control by the Bank of England and the Rothschild). The currency and taxes of government must be placed in bank system, which is responsible for issuing national currencies to meet the needs of economic development, and also have functions to lending money to government and gain interest from it. [21] The government, which is extremely eager for money, is making a hit with the private central bank, which is looking forward to government debt, during establishment of central bank which from 1791 to 1796, the debt of USA government increased 8200000 dollars. After the resignation of President Jackson, the first US bank was closed in 1811. With the outbreak of the second independent war in the United States in 1812, the government was in financial trouble. After that second American bank was been established, the aim of this bank is to help government finance funds. The total share of the bank is increased to 35million USA dollars, government has control 20% shares, and the other is controlled by government. In 1828 Andrew Jackson came into power, he decided to abolish the second bank, he vetoed the bill for the second bank's delay, at the same time he ordered the finance minister to take all government's savings from second bank away immediately and transferred them to state bank. During the civil war in USA which is from 1836 to 1861, the main currency in the US is bank notes which are came from 1600 banks. These are general view of financial history in early stage of USA.

4.1.2 Financial crisis in the USA

1929~1933

In 1930s the USA economy has emerged a prosperous situation, and controlled hegemony of the world economy steps by steps, New York become world financial center. After economy boom the USA's economy lose its control steps by steps the reason are as follows:

- Domestic technological innovation and the government's laissez-faire policy.
- Stimulus of international world II and a relatively stable political and economic situation after the war provided a good condition.
- Behind the boom of the economy, the blindly of USA long-term investment, economy imbalance, agricultural downturn, increased unemployment. The ever-expanding supply is much more than the ability to pay at home and abroad, lurking the relative surplus of production.

Consequence: At the end of 1920s the economy of USA become depression and crisis, Blind expansion of production with the relatively stable capacity of the international and domestic market sharp contradictions, led to the outbreak of the economic crisis in 1929. [19] The crisis begins with the slump of New York's stocks price, and it swept the US, and quickly spread throughout the United States and quickly swept through the entire capitalist world. So in 1929 ~ 1933 the global economic crisis broke out.

The big depression in EU and the USA during 1922~1933 have great impact in their economy and social life, affecting in the following steps: the decline in commodity prices, weakening purchasing power, increase in demand, increase in unemployment, expansion of stocks, the shrinking of production, public panic, and the general downturn in business activities, such as a longer duration, greater shrinkage, wider geographical the higher the frequency of the economy.

The big depression gives the USA a harmful influence, as for in 1939 the USA only to return to the production of 1929 level, this depression also give the united states a bad influence in population, education, life level, and also believe etc.

The USA financial crisis in 2008

Latency of USA's crisis

The United States began the information technology revolution in the 1990s and found a new economic growth point - the Internet, and called the information superhighway project. Because of high-tech arrive in USA, attracting the world's capital tide into the United States, into the Silicon Valley, flocked to the NASDAQ Securities Market, which was established in 1971, to come here for gold rush. Many high-tech companies in the United States through the NASDAQ-listed way to attract the world's money to the United States, and though the capital market the US transferred a lump sum of money into native market from the whole world. [19] And these actions lead a heat of investment, thus stimulating USA economic growth, the bubble of NASDAQ stock market burst in 20th April within a year from the highest point of 1600 fell to the lowest pint of 5300. Capital has always goes to the safe place; but Osama bin Laden led al-Qaeda hostage crashed into the twin building, making the United States to break the most secure territory of the legend, from that day capital became to go and find the safe place like EU. And then the United States broke out of the war in Iraq makes the United States had to pay a lot of money to speed up economic instability.

The direct factors of financial crisis in USA

Firstly, commercial bank of the USA release subprime. At the beginning, only credible people are eligible to apply for housing loans, but the person with high quality credit become less and less so commercial bank have to behave affectedly to expend their business, allowing credit rating of poor customers to apply for housing loans.

Secondly, commercial bank sold the subprime to investment bank, because this action will decrease the risk if the clients lose their ability to pay for the loan. And also this action will transferred the risk to the investment bank.

Last but one, commercial bank packaging the subprime and sell it to the whole world. After buying subprime from commercial bank, investment bank begin to design financial derivatives, into subordinated bonds - debt-backed securities (CDO) In this way, the subordinated debt sold to the world.

Last but not least, buy insurance for CDO. In order to dispel the fear of investors buying investment bank subordinated bonds, investment banks to design a new product - credit default swaps (CDO). The investors who worried about the risk of the subordinated debt they can buy credit default swaps, insurance companies bear part of the risk.

Following Table 4.1 shows the procedure of burst crisis.

Table 4.1The procedure of burst crisis

Time (d/m/y)	name	incident
2/4/2007	New Century Finance	Apply bankruptcy protection
6/8/2007	American Mortgage Corporation	Apply bankruptcy protection
8/8/2007 19/7/2007	The fifth-largest investment bank Bear Stearns	Announced to close two hedge funds Hedge funds are on the verge of collapse
6/8/2007	American Home Mortgage	Apply bankruptcy protection
9/8/2007	The biggest bank in France BNP Paribas Investment Partners	Announced they get into subprime mortgage crisis of American
10/8/2007	Europe	Get in to the subprime crisis
14/8/2007	Wal-Mart	Get a huge loss
20/8/2008	Germany	Get into the financial crisis
8/16/2007	The biggest commercial mortgage company in American	Is in the verge of bankruptcy

Source Own table

We can see that this financial crisis in American in not only influence investment companies or commercial bank in the USA but also spread around the world, and there still have some countries can't get recover in this huge crisis until today.

4.2 Market- based financial system in the US

Market –based financial system is a system which is based on direct financing market-oriented financial system. In this system capital market is more developed, and the main method of long-term financing in corporate is to use capital market, as for bank is more professional to use it to provided short-term debt and settlements. Also in the system stock market undertake a part of responsible (like financing funds, corporation management) which are ought to be undertake by bank, though the capital market to achieve reasonable allocation of resources.

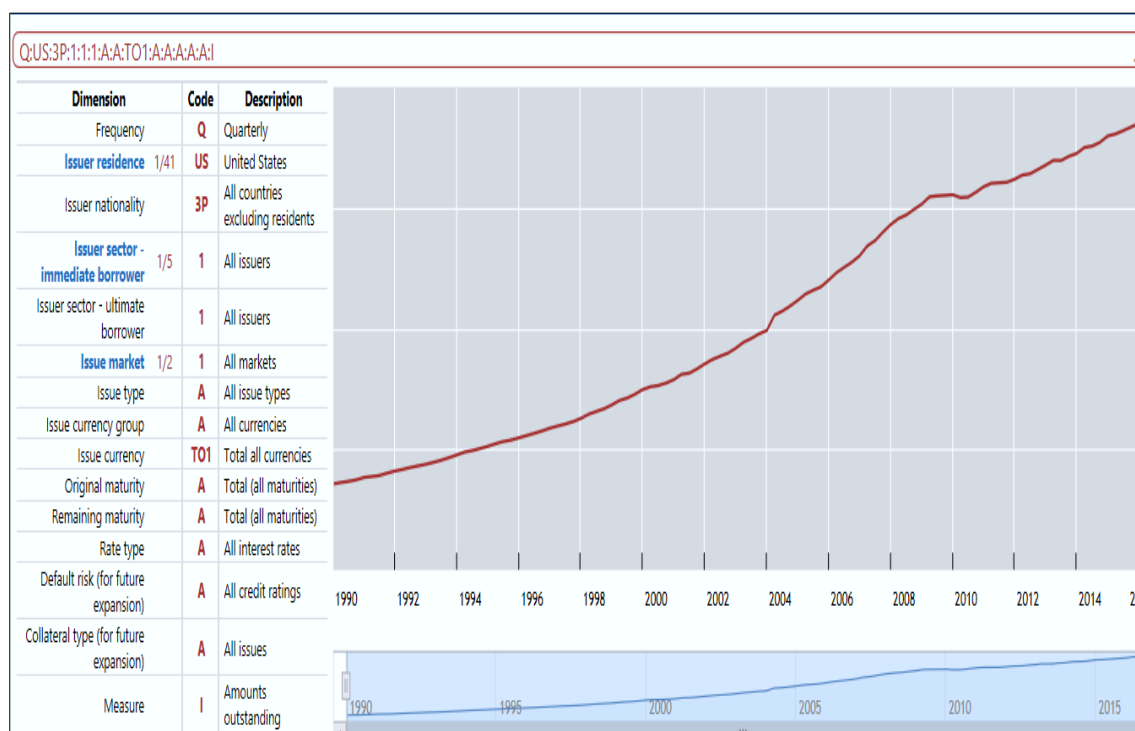
4.2.1 Securities market

The investment products in securities market of the USA are very abundant. There are securities and stock (such as the Dow Jones index, the S&P 500 index) spot, securities and stock futures and options, convertible bonds, trust certificates (ADRs). Investors can not only carry out various types of individual investment, but also can be between them arbitration transactions, to avoid the behavior of various types of investors caused by the unilateral operation of the market, the situation has skyrocketed.

The issuing market of security market in USA is an international market with large scale and capacity. Only the New York Stock Exchange, a listed company in 2002, 2783 listed companies, issued a total share capital of 349.9 billion shares, the total market value of 13.4 trillion USA dollars.

Following Figure 4.1 shows the general situation in securities of the USA.

Figure 4.1 General situation in securities of USA



Source: the trend of stock market in the USA (<http://www.10jqka.com.cn/>)

We can see from the picture the total debt amount of the USA securities market has raise year by year.

Stock market

The USA stock market is the world's most developed stock market, whether it is the stock market or the circulation market, or the number of shares issued and traded varieties, the stock market capacity or market development level, are second to none in the world.

Characteristic of stock market in the USA

The trading market in the United States can divided into centralized trading market and decentralized trading market. As for centralized trading market always mentioned as securities markets and the second one include the off-market and third and fourth market, the US circulation market is the redistribution market of issued shares, whose main task is to provide places, equipment and professionals to facilitate and facilitate the secondary transactions of securities.

The United States has a multi-level stock market: in American there have four different national stock exchanges. With the support of the investment bank every company has opportunity to become joint stock companies despite the size of company. And there doesn't have any monetary control in United States, it's totally free for dollars to enter or out in the USA market, and government also encourage foreign company to participate in investment.

In the USA, financial channel is very free, the joint stock company can issue new stocks for financing at any time, and there is no limited in issuing time and the frequency this decision always determined by board of directors, and the management of company can directly hold or have options. Because the United States listed company stock is all in circulation, with the stock is deemed to have cash.

The structure of stock market in the USA

In the United States there are three main stock exchanges consist of the basic stock exchange:

- New York Stock Exchange,
- American Stock Exchange
- National Association of Securities Dealers Automated Quotation (NASDAQ)

New York Stock Exchange

Second largest stock exchange in the [1]world, As of February 1999, there were more than 3,000 companies listed on the exchange, including 385 foreign companies from 48 countries, raising more than 10 trillion dollars in global capital markets. Thousands of bonds from US governments, companies and foreign governments, corporations and international banks are also traded on exchanges. Because of long history New York Stock Exchange is much more mature than any other, so it is no wonder that it has a strict listing conditions, those who do not have money to raise funds to the company is unable to enter the New York Stock Exchange, and the history of Fortune 500 companies are mostly listed on New York Stock Exchange.

American Stock Exchange

Formerly known as the New York Stock Exchange Stock Market, the main transaction at early days are bonds which are belongs to the USA government and stocks which are belongs to the new corporates, and later gradually formed a perfect trading rules. In 1921, from over-the-counter trading to floor trading, the main operations include stock business, options business, exchange traded funds (ETFs) business. Exchange-traded stocks include banking and financing, communications technology, resources and energy, manufacturing, wholesale and retail, health, real estate and REITs. American Stock Exchange provided financing opportunities in all industry for investors, stock issuers and institutional investors. Since January 2000 as main financial index of American Stock Exchange composite index has exceeded the New York Stock Exchange composite index and the NASDAQ composite index. The 25 biggest joint stock companies American Stock Exchange included British American Tobacco, Imperial Oil, Mobil Oil, Exxon Oil General Motors, DuPont and other multinational companies.

National Association of Securities Dealers Automated Quotation (NASDAQ)

NASDAQ is the United States National [1] Association of Securities Dealers in 1968 to create the name of the automatic quotation system in English Abbreviation.

The main characteristic of NASDAQ is to collect and publish the quotation of OTC shares unlisted securities. And in today it become the largest exchange market in the world.

NASDAQ has its own commercial system, they are some independent stock traders, and bear a certain stock to buy or sell it for investors. This system is quiet important for the stocks which have low face value and less number of trade.

Main function of stock market

- Stock market is main financing resource for US corporate. US companies are relatively stable and normal capital resource, and can be divided into two parts internal and external. The main source of funds is retained profits and depreciation funds, external funds mainly from a variety of financial institutions loans and securities financing.
- Stock market is main channel foe US to absorb foreign capital. Because the stock market is the most development market in the world, and it is free for dollars to enter or out of the market.
- The stock market is the main lever for the US to adjust its economic structure. The economic development of the United States and the adjustment of economic structure are mainly carried out by the market mechanism. The adjustment effect of the stock market on the economic structure is mainly manifested in the change of investment direction. Some of the investment funds in the economy of the US stem from issuing stock. The institution of issuing stock is mainly depends on its profitability and prospects. As for the profit and prospects of stock is mainly determined the ups and downs of a business or department. Therefore the stock market can restrict the flow of funds, and plays a regulatory role in the direction of the economic structure of the changes have a direct or indirect impact.

4.2.2 Bond market

The development of bond market in USA

The USA bond market is one of the world's oldest bond markets. The development of bond market in US can trace back to 1792, when the New York Stock Exchange was set up to facilitate the scale and trading of USA government bonds. In other word as the largest stock market in today, New York Stock Exchange in that year is actually the bond exchange. With increase in stock issuance and trading volume, bonds gradually left the exchange market. In 1970s, burst oil crisis and a series of [1] economic and financial system changes caused by stimulated traded bonds. The oil crisis caused high inflation rate, and also lead to the collapse of the global fixed exchange rates system (the Bretton Woods system). In this circumstance the market interest rate not only substantial increase (the corresponding bond prices fell sharply) and the volatility is extremely intense (corresponding to the sharp changes in bond prices) in this situation increased the risk of purchase bonds. And other indirect result of the two oil crisis is the rapid development of interest rate

liberalization, financial liberalization and financial globalization, which makes a large number of enterprises, local government began to rely mainly on the bond market, rather than bank loans to obtain direct debt funds, the result is rapid the growth of the bond issuance. The rise in the price of bonds and the increase in circulation have raised the requirements for the development of the secondary market of bonds from the two aspects of avoiding risks and providing liquidity. In addition, the Fed's monetary policy also requires a more developed bond secondary market to facilitate open market operations.

The scale of USA bonds market

USA bond market has the world's largest bond market. The main investors in this market are institutional investors, including commercial banks, insurance companies, USA state and local governments, pension funds and mutual funds. According to SIMA (securities industry and financial markets association) data, at the end of 2011, the USA bond market stock of 36.6trillion USA`S dollar, and the United States GDP ratio is 3.56. The main product of bond market include: monetary product, like treasure bill, municipal debt, federal agency debt and asset securitization products, among them, asset securitization products (MBS and ABS) is the largest class of bond assets, the scale of 10.3 trillion. As for treasury bonds, federal debt, corporate bonds and money market products were about 9.9 trillion, 3.7 trillion, 2.3 trillion, 7.8 trillion and 2.6 trillion.

Following Table 4.2 shows the size of the US bond market.

Table 4.2 USA bond market global share (6/2007 M/Y)

	Domestic bonds	International bonds	Sum
The size of global bond market	52942.08	21886.51	74828.59
The size of bond market in US	23380.40	5333.50	28713.90
US bond market share	44.2%	24.4%	38.4%

Source: Bank of International Settlements

Classification of bonds

We can divide bonds into five different types according to the issuer they are: Public sector bonds; transport sector bonds; industrial sector bonds; bank and finance corporate bonds; large enterprise group bonds, and within the various categories can be more detailed division Such as the utility sector can be broken down into power companies, gas supply companies, water companies and communications companies; transportation sector can be divided into airlines, railway companies and communications companies; industrial sector can be subdivided into a variety of manufacturing, trade and services companies.

A brief classification of USA bonds market

In this part it has three boards to be discussed, they are as follow:

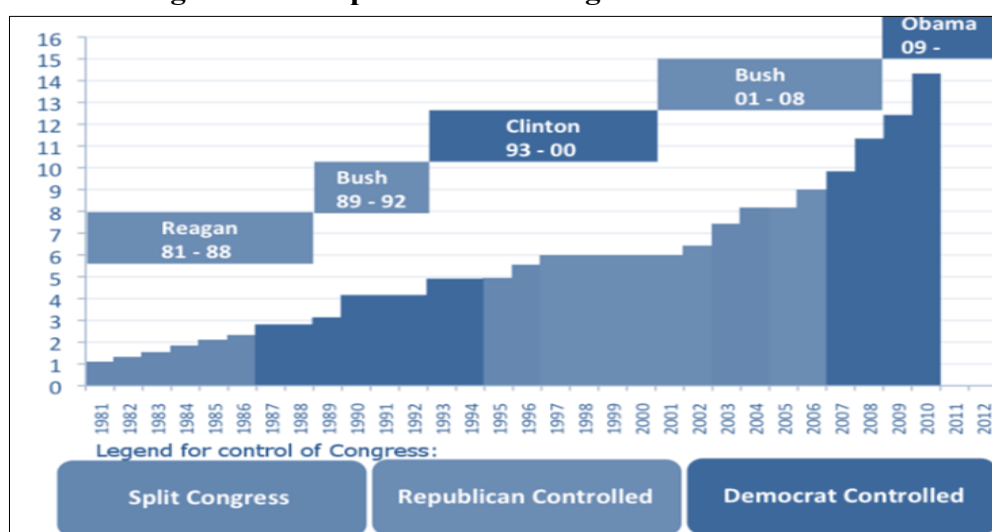
- USA government bonds
- The municipal bonds in the USA
- Corporate bonds

USA government bonds

USA government bonds are issued by the ministry of finance in USA, but in modern times especially in recent years, international financial operations, often used as a safe and convenient means of payment than currency. The bonds that issued by USA government can divided into three part, the first part is short-term treasury bonds, the period is 13, 26 or 52 weeks, it mostly at discounts auction. The minimum purchase amount is \$10000 and the larger denomination should be a multiple of \$10000. The second category is the medium-term treasury bills for the period of 2,3,4,5,7,10, review securities. 4 years in December 1990 to stop the issue, 7 years in April 1993 to stop the issue, all the treasury notes are fixed interest due repayment. As for the minimum face value of the bond is \$1000. If the period is less than 4 ears, the minimum purchase amount is \$5000. Large purchase amount is \$5000. Large purchases are due to multiple of \$1000. The third category for the long-term treasury bonds more than 10 years of review securities, all securities are fixed interest rates, due to repayment. The minimum face value of \$ 1000, large purchases should be multiples of \$1000.

Following Figure 4.2 shows the debt scale of the USA, it can be seen from the figure with the change of the president the size become large and large.

Figure 4.2 USA public debt ceiling since 1981-\$trillions



Source: Bank of International Settlements

The municipal bonds in the USA

The municipal bonds are mainly divided into: General Obligation Bonds, Revenue Bonds, appropriation Conduit Bonds. The issuer of general obligation bonds is state or municipal government, debt repayment is covered by all government credit and taxation capacity, and debt service is included in the general budget. This kind of bonds are secured by credit of USA government, the scale of the total issuance shall be controlled within the prescribed debt limits. And each issue is generally required to go through high-level institutions (such as all voters, parliament) approval. Income bonds and project channel bonds are more complex, the overall principle is the voter interests are more directly related to the more stringent approval procedures. The state government or municipal government is not intervention by higher level of government for issue bonds, and every state or municipal government has its own management model, roughly divided into centralized management and decentralized management.

The centralized management model is represented by the California government. The state treasurer's office as the state government's assets managers, bank managers and financiers, solely responsible for the state government debt distribution management. As for the specific implementing agency for it's under the public finance office, the main function of this department is mainly responsible for the management of the state government debt and bond issuance operations. As a custodian, registrant and payment agent for all state government general liability bonds and part of the proceeds bond; the main function is to fulfill the bonds in the state and federal laws, to coordinate investor relations, to be responsible for the general budget related to the issuance of the bonds in the state government needs to carry out the information disclosure. Other state finance departments are mainly responsible for the allocation of debt funds and project management.

The decentralized management model is represented by New York City. In the financial management system, the New York City implements the budget management for compiling, reviewing and reviewing the opinions of the auditors, and the three municipal councils voting. In municipal debt management, the major's office of management and budget and office of the comptroller coordinate to manage government debt portfolios. Every debt must be signed by the major and the auditor-general to issue. The Treasury Department under the Public Finance Department is specifically responsible for the issuance of municipal bonds and other related work. The laws of the United States have limited the size of local debt issuance, mostly for general liability bonds, the main regulatory indicators are debt-ratio, debt ratio and debt service rate. Most of the municipal bonds have limits of the size especially for the general obligation bonds. According to a survey conducted by the National Association of State Budget Officers in 2002: In state constitutions and laws and regulations permitted to issue general obligation bonds of the 47 states, 37 states in their constitutions and decrees of general obligation debt provisions of the quota, to check their own liabilities and repayment capacity, and implement accordingly Strict debt management.

Corporate bonds

Corporate bonds, refers to the company to raise funds, issued in accordance with the statutory procedures, agreed within a certain period of time the principal and interest of the securities. American corporate bonds in addition to the common nature of corporate bonds, but also has the following characteristics:

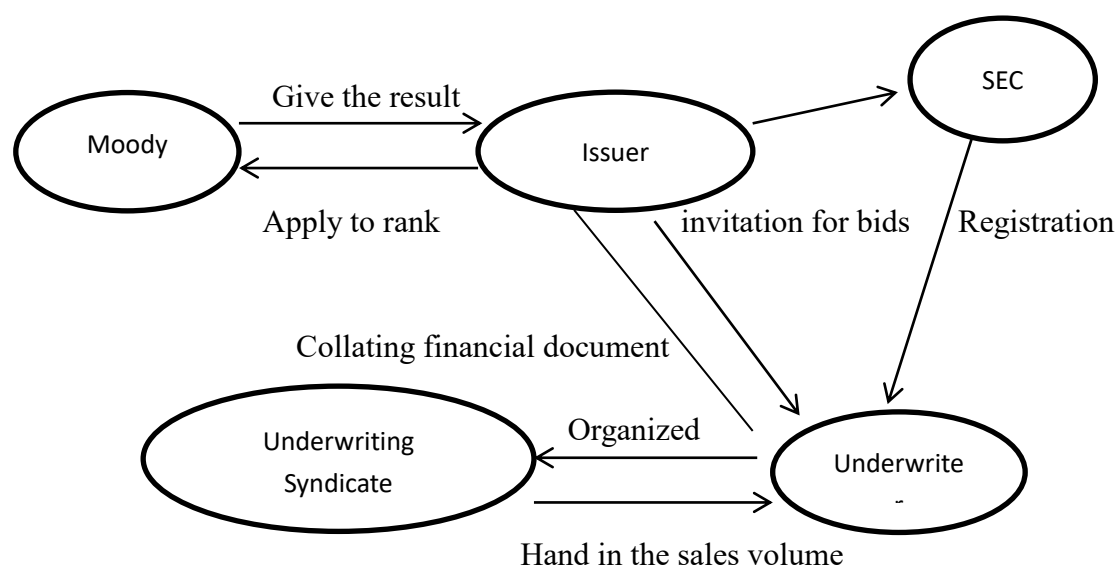
Firstly, it has foreclosure. It means the issuers will stipulate the price and repurchase the bonds at predetermined dates. This kind of repurchase will take two kinds of different ways, Firstly, from the secondary market repurchase transactions, the second is a direct repurchase from the hands of bondholders. Generally, every corporate have right to carry out foreclosure instead have 10-years corporate bonds, and this price will higher than face value of the bonds.

Secondly, floating interest rate, it means adjusting nominal interest rate regularly according to the interest rate in monetary market. Floating rate corporate bonds allow the issuer to adjust the interest rate of the coupon to be paid in accordance with changes in market interest rates so as not to miss the benefits of falling interest rates.

Thirdly, transferable, this characteristic allows investor to enjoy the fix interest rate and also can be transferred into common stock at the predetermined price, This design is most popular with investors because investors are buying convertible bonds based on optimism about the company's share price and expect future gains from capital gains, And the issuer will provide such a profit opportunity to set the coupon rate lower, while the stock market downturn when the issue of convertible bonds can complete the financing plan, but also to maintain the company's share price.

Following Figure 4.3.shows the process of issuing corporate bonds.

Figure 4.3The process of issuing corporate bonds



Source: Own table

Following Table 4.2 shows the comparison of the five countries

Table 4.2 Comparison of five countries

	USA	Japan	Britain	Korea	France
Corporate bonds	2404	732	161	120	109
Total bonds	14335	6329	851	304	1005
Corporate bond ratio	16.77%	11.57%	18.92%	39.74%	10.85%
stocks	16635	4547	2933	149	1476

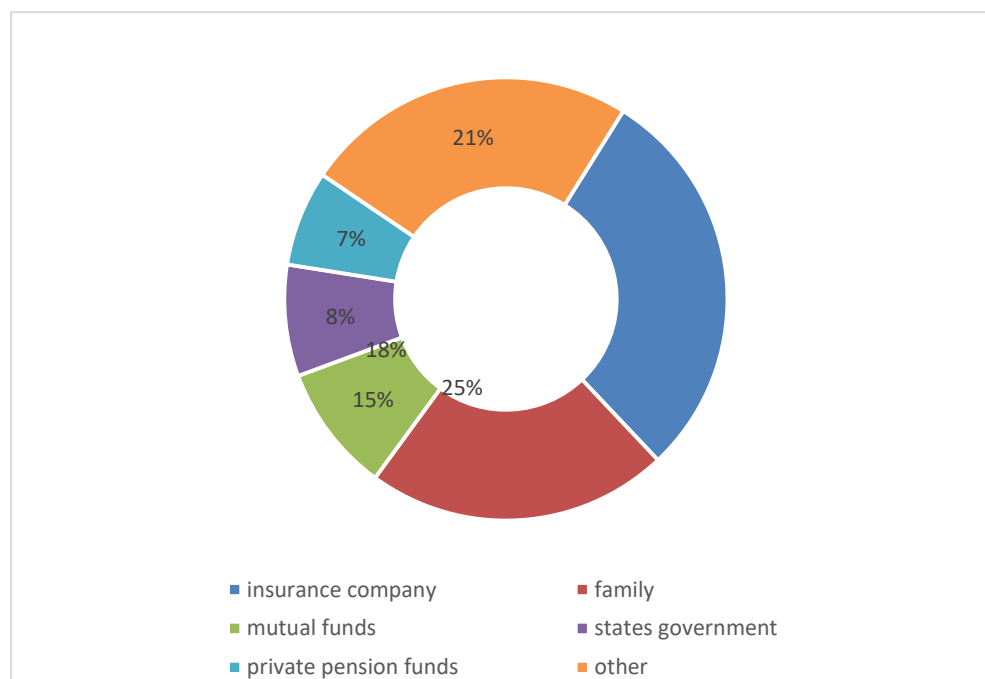
Source: BIS 2000, Securities Industry Association

It can be seen from the chart compared with other four countries, the USA bonds market is the largest and also has the biggest issuance size, it reflects there is large potential needs in the US bond market.

USA corporate bond market ranks first in the world, as of 2000, the total amount of corporate bonds in the United States amounted to 2404 billion US dollars, corporate bonds are an important part of the US bond market, accounting for 16.77% of the total US bond market.

Following Figure 4.4 shows the structure of USA's corporate bond market.

Figure 4.4 The structure of USA's corporate bond market



Source: the Federal Reserve flow of funds.

Ranking system in the USA

The bond rating first appeared in the United States at the beginning of the 20th century. In the course of a long period of time before the 1920s, with the large number of bonds issued, investors face a great investment risk, investors face a great investment risk, so the third part of rating company appeared. The rating companies stand in a fair view, and give company who need issuing bonds a rank according to their production and management capacity, prospects and other background information to conduct a comprehensive evaluation. In this background Moody's, Standard and Poor's, Fitch has been established. In the early days, the three rating companies were only statistical offices, but the use of public information to provide customers with statements and statistical analysis services. Since the 1970s, with the continuous integration of the world economic integration process and the gradual integration of international financial markets, the development of the three companies have been recognized as today's world-class "three" credit rating company. In the United States, where public offering of corporate bonds to be rated, and many companies in the issuance of corporate bonds to get the rating of two rating agencies.

4.2.3 Trust business in USA

The operations carried out by American trust institution can be divided into civil trust business and commercial trust business. In this part I will only focus on the commercial trust business, and commercial trust business can be divided into five sectors, it can be as follows:

- Pension trust
- Trust-type mutual funds
- Special purpose trust
- Real estate investment trust
- Secured bonds trust

Pension trust

Pension trust, in the USA, the Employee Retirement Income Security Act, enacted in 1974, provides for mandatory trusteeship rules requiring pensions to be established as trusts. The main reason for this requirement is to ensure that the fund assets are exempt from corporate creditor's recourse with the insolvency of the trust property. By the end of 1996, the total value of private pension in the USA had reached \$ 3trillion, while most of the \$ 16 trillion in the national and local pension plans existed in trust.

Trust-type mutual funds

Mutual; funds can be formed in the form of corporate investment companies, can also be used in the form of investment trust. The typical practice of trust-type mutual funds is that most micro-investors collect funds into large sums of money and then

invest in different firms by professional investment institutions, and then choose and manage assets by investment experts in accordance with the fund's investment objectives. The fund provides professional advice and economies of scale.

Special purpose trust

In modern financial market asset securitization has occupied a core position, it refers to the fact that the funding agency (for example, the client) divides the trust benefit which is owned by the trust set by signing the trust contract so that it can be transferred to large number of investors. In addition to the commercial bankruptcy isolation function, asset securitization can also reduce the cost of credit, and special purpose trust refers to the law in accordance with the provisions of asset securitization for the purpose of the establishment of the trust relationship.

Real estate investment trust

Real estate investment trust is mainly to purchase, operate and manage the income of real estate projects, and the income in the form of dividends paid to shareholders. Some real estate investment trusts also provide financing for real projects. Real estate investment trust with its targeted investment strategy, high transparency of the business, diversified portfolio, tax advantages, attractive rate of return, and the low correlation between the securities market and convenient trading methods and other characteristics, in many developed countries in the world have been rapid development.

Secured bonds trust

Refers to a trust business that accepts a bond issuance company that replaces the bondholder to exercise a security right or other right, is a form of trust in which a trust institution assists an enterprise in issuing bonds, providing issuance facilitation and security matters. The basic approach is the issuing company as the principal, the trust as the trustee, all the corporate debt creditors as beneficiaries for all future corporate debt creditors to enjoy the common security matters. The basic approach is, the issuing company as the principal, the trust as the trustee, all the corporate debt creditors as beneficiaries for all future corporate debt creditors to enjoy the common security interests for the purpose of the distribution company and the trust between institutions signed a trust contract. The trust property is a security right in the property of the issuing company to secure the corporate bond, and the trustee obtains the security right on the property and saves it for the beneficiary. If the consignor repaid the interest of corporate bonds regularly the main purpose of trust has been finished. However, if the client violates the trust contract and fails to perform the obligation to repay the principal and interest of the company or the delay of payment, the trustee shall carry out the security right, auction the collateral and pay the company's debt at its price. At that time beneficiaries are equally repaid from the price in accordance with their holdings to that all corporate bond creditors are substantially in the same interest as the individual provided security, and in the form of cumbersome procedures for individual guarantees other inconvenient.

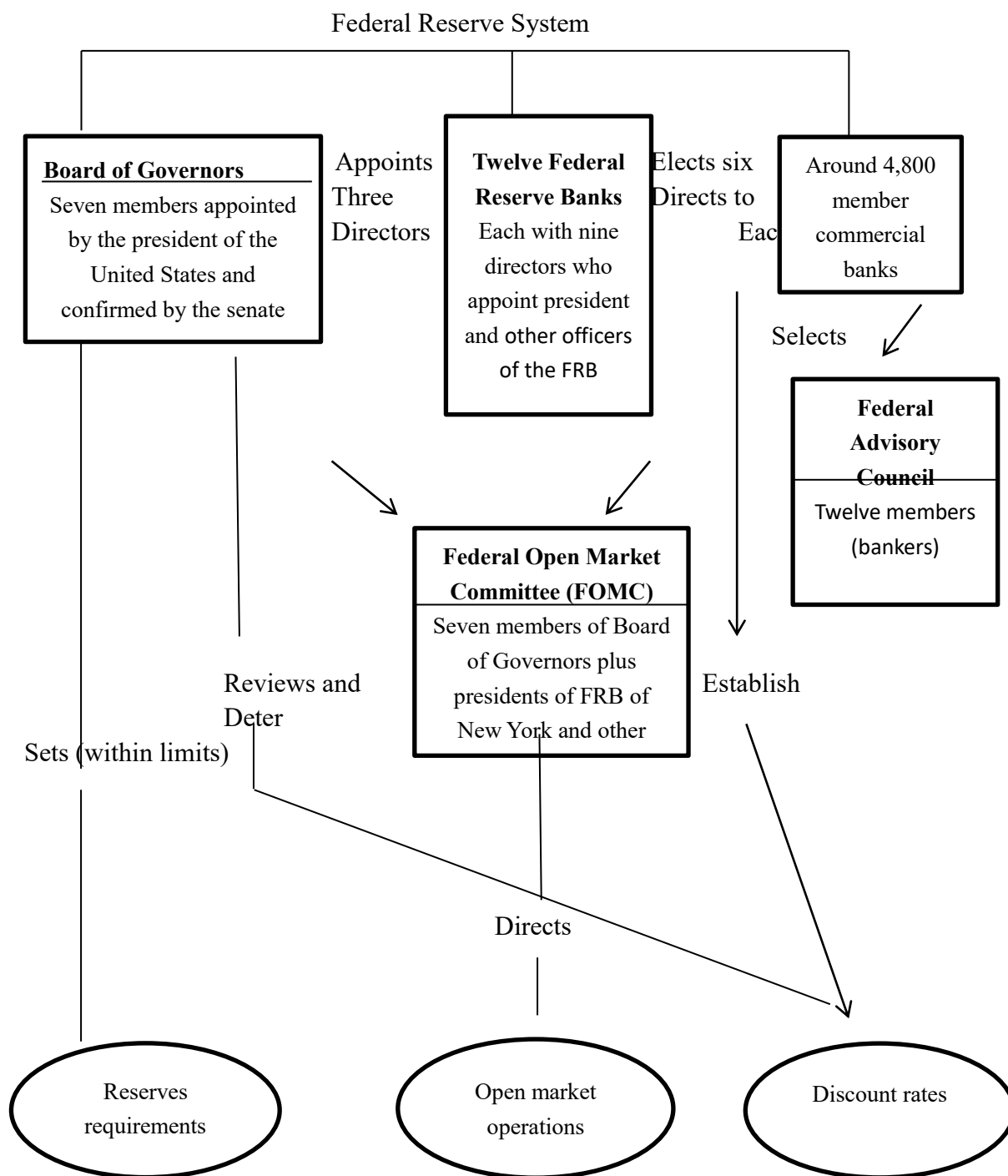
4.2.4 Central bank in USA

The federal reserved

The Federal Reserve System (also known as the Federal Reserve or simply the Fed) is the central banking system of the USA, it was created on 23th December 1913, with the enactment of the Federal Reserve Act in response to a series of financial panics (particularly the panic of 1907) that showed the need for central control of the monetary system if crises are to be avoided. The USA congress established three key objectives for monetary policy in the FED Act: maximizing employment, stabilizing prices, and moderating long-term interest rates. The first two objectives are sometimes referred to as the Federal Reserve's dual mandate. Its duties have expanded over the years, and as of 2009 also include supervising and regulating banks, maintaining the stability of the financial system and providing financial services to depository institutions, the USA government, and foreign official institutions. The Fed conducts research into the economy and releases numerous publications, such as the Beige Book.

Following Figure 4.5 shows the structure of Federal Reserve System.

Figure 4.5 The structure of FED



Source: Own table

Top four commercial banks in USA

Merrill Lynch & Co

Merrill Lynch is one of the world's leading financial management and consulting firms, and Merrill Lynch meets the needs of individuals and institutional clients by

providing a range of financial services. These services include personal finance planning, brokerage securities trading, corporate consultancy, foreign exchange and commodity trading, derivatives and research. As an investment bank, Merrill Lynch is also the world's top trader and underwriter of stock and derivative products across multiple asset classes, as well as strategic advisors to global businesses, governments, institutions and individuals.

Morgan Stanley

Morgan Stanley, an international financial services company based in New York, offers a wide range of financial services including securities, asset management, corporate mergers and acquisitions, and credit cards. Morgan Stanley is a leading global international financial services company specializing in investment banking, securities, investment management and wealth management. Morgan Stanley Corporation has nine divisions, including: Stock Research, Investment Banking, Private Wealth Management, Foreign exchange / Bond, Commodity Trading, Fixed Income Research, Investment Management, Direct Investment and Institutions Stock department.

Morgan Stanley's financial sector includes stocks, bonds, foreign exchange, funds, futures, investment banking, securities underwriting, corporate finance consulting, institutional corporate marketing, real estate, private wealth management, direct investment, institutional investment management.

Goldman Sachs Group

Goldman Sachs Group is an investment bank, securities trading and investment management business as one of the world's leading investment bank. It provides a full range of high-quality financial services to thousands of customers worldwide, including businesses, financial institutions, national governments and individuals.

Main operations in Goldman Sachs Group

Investment banks, provide a wide range of investment banking services for a wide range of businesses, financial institutions and individuals.

Transactions and direct investment, on the one hand to help customers, on the other hand through the market, trading and investment in fixed income and stock products, foreign exchange, commodities and derivatives, with self-financing transactions. In addition, Goldman Sachs Group is also involved in the stock and options exchange of franchise traders and market activities, and in the world's major stocks, options and futures exchanges for customer transactions settlement.

Citibank, N.A.

Citigroup is the world's largest asset portfolio, the most profitable, the global chain of the highest, most complete business category of financial services group. Citigroup, as a global financial services company, offers a wide range of financial products services from consumer banking services and credit, corporate and investment banking services to brokerage, insurance and asset management, and can

be compared to any other financial institution. Citigroup, Citi-financial, Banamex and Primerica are listed under Citigroup.

4.3 Characteristic of financial system in the USA

The financial system in the USA are all above, As we all known the United States is a market-based financial system, from this brief introduction it can see some characteristic between market-based financial system and USA's system, they are as follows: In market-based financial system capital market is quite development, in this system the banks are more focused on help companies to do long-term financing, banks provide lots of short-term and settlement options. Based on market-based financial system, securities market also undertakes some responsibilities they help company to manage and reduced some risk, funds can be use more valid throughout financial market.

Other financial intermediaries in market-based financial systems

In the market-oriented financial system, the role of financial intermediaries mainly in the four aspects:

- To provide liquidity
- Filter risk
- Create products and market prices through the market
- Based on market risk portfolio and assets value-added services.

In the financial intermediary organizations, commercial banks are no doubt as long as the provision of liquidity services; and other financial intermediaries are more for the market-based financial activities to filter the risk of creating products and market-based pricing, risk portfolio of financial assets and other financial services.

Market-based financial system takes lots advantage for not only the residents in USA but also for nations. But meanwhile it also brings some risks. Firstly, the system that used in USA which is market-based financial system makes the assets of the investors suffered risk more easily. It influences the market information, market sentiment and also short-term volatility of assets, it results in a huge volatility of market value in assets. The capital market itself is more responsive to information and mobility, and is more sensitive to asset value volatility, especially in the case of over-trading in the financial market.

In market-based financial system, the main reason for market is the volatility in market value of assets. Market crisis is from the real value of the assets and market value of the assets. For example, in 1987, the US stock market crash, the 2000 network bubble and the new round of financial crisis in the United States, the crisis-induced factors are asset price bubbles, in those market crisis the market-based financial system's countries like USA suffered much more losses than the countries which has bank-based financial system.

5 Comparison of financial system between China and USA

The financial system has always been a hot topic in the financial field. Financial system can be divided into two parts, the first one is market based financial system it is typically in the USA, and another is bank based system which is used in China. In the modern economy, the financial system is critical to resource allocation. In general, through the financial system, household savings flows to the business sector and can be allocated to between different enterprises investment funds, the financial system allows families to smooth the family spending, and also the companies can smooth out of spending, so that enterprises and families can share the risk. However, the country is different, the financial system is different. As mentioned above, the financial can be roughly divided into bank based financial system highlights the positive is developed, the external sources for funds are mainly through indirect financing, banks in the mobilization of savings, allocation of funds, supervision of corporate managers to invest in decision-making and to provide risk management tools to play the main effect. In bank based financial system, bank plays a leading role in transforming savings into investment, allocating resources, controlling business and providing risk management tools, bank use their own advantages in terms of capital, talent, information, comprehensive and extensive participation in economic life, promote economic development. [27] As for the market based financial system, capital market is more developed, the main long-term financing of enterprises is capital markets, banks are more focused on providing short-term financing and settlement services. In the market based financial system, the securities market has assumed a considerable part of the bank's commitment to financing, corporate governance, reduce the role of risk, funds through the financial market to achieve effective allocation, so that limited funds can into the best enterprises market spontaneous, efficient allocation of resources, thereby promoting economic development.

5.1 comparison between market based and bank based system

Comparing the market-oriented financial system from risk structure to diversify risk in many ways, the bank-dominated system is mainly risked by banks. When the crisis comes, the bank-dominated country can basically keep the crisis if it can keep the big banks, and the market-led state timely government funding still can't effectively prevent the spread of the crisis. So the market based countries suffered greater blows. When we stand in the perspective of residents and enterprises, in the market based financial system of the country, securities accounted for a large proportion of family financial assets, a considerable extent affected by market fluctuations, the stock feel after the forced emergence of the family, will reach out the impact of the deadline in the stock price will bring greater benefits to the family, in the bank based financial system the family assets constitute only a small part of the securities, these bonds are disturbing market standards for valuation, so the stock price fluctuations on the family the impact is not large. It can be seen that individuals in the market financial system countries are more at risk than individuals in the bank

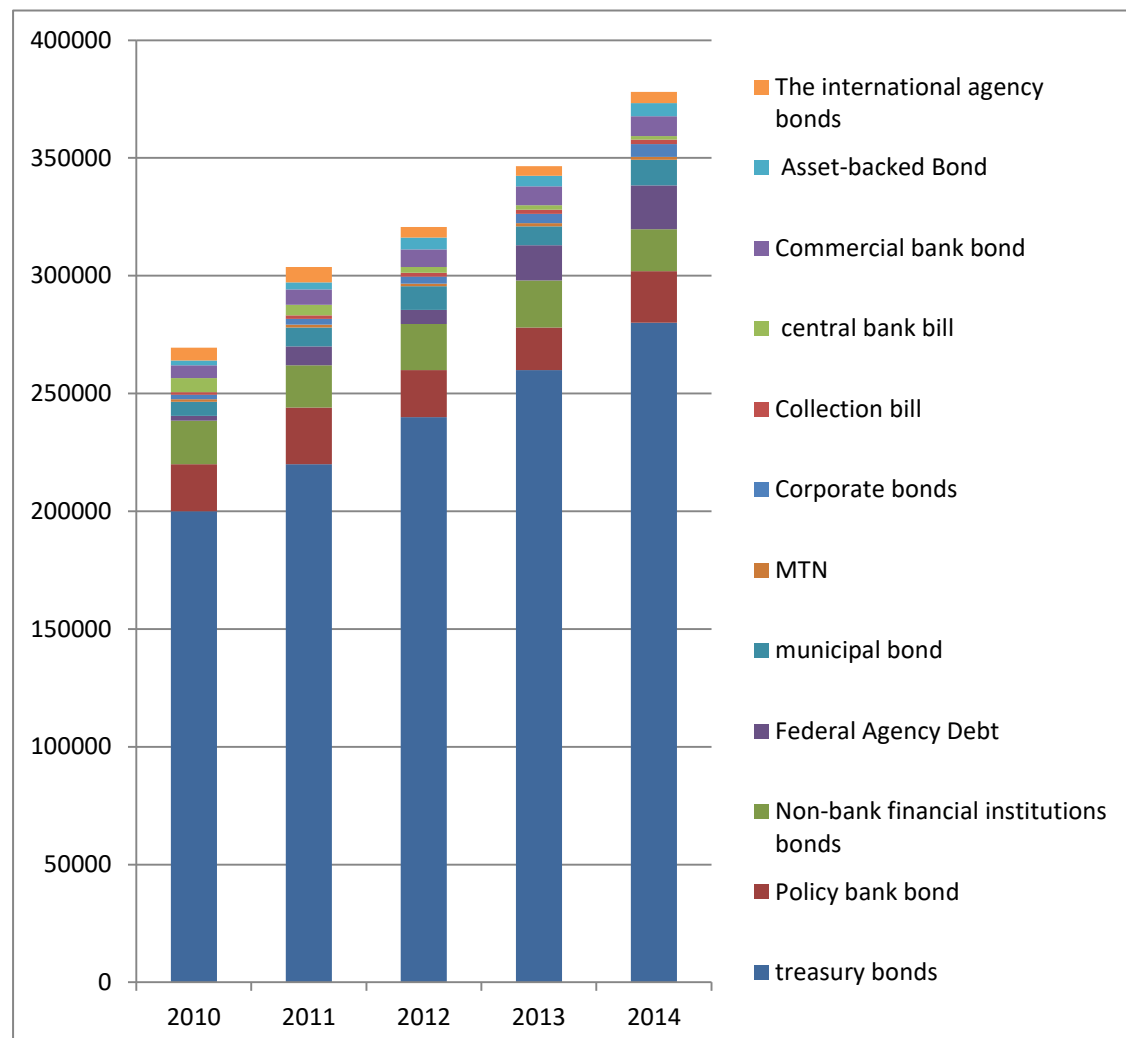
based financial system countries. Because financial markets provide risk-sharing mechanisms, all markets in a relatively well-developed capital market are advocated in a market based financial system.

It is noteworthy that the market based financial system maybe exist a greater system crisis. Under the system, the boundaries of the financial business are blurred, and different types of financial institution form all aspects of the financial risk chain. Capital markets are risked by leveraging and over-trading, and the transfer is dispersed into the banking market, so that the risk of capital markets evolves into the risk of the entire financial system.

5.2 Comparison of bond market in China and USA

Figure 5.1 shows Bonds inventory in bond market of China.

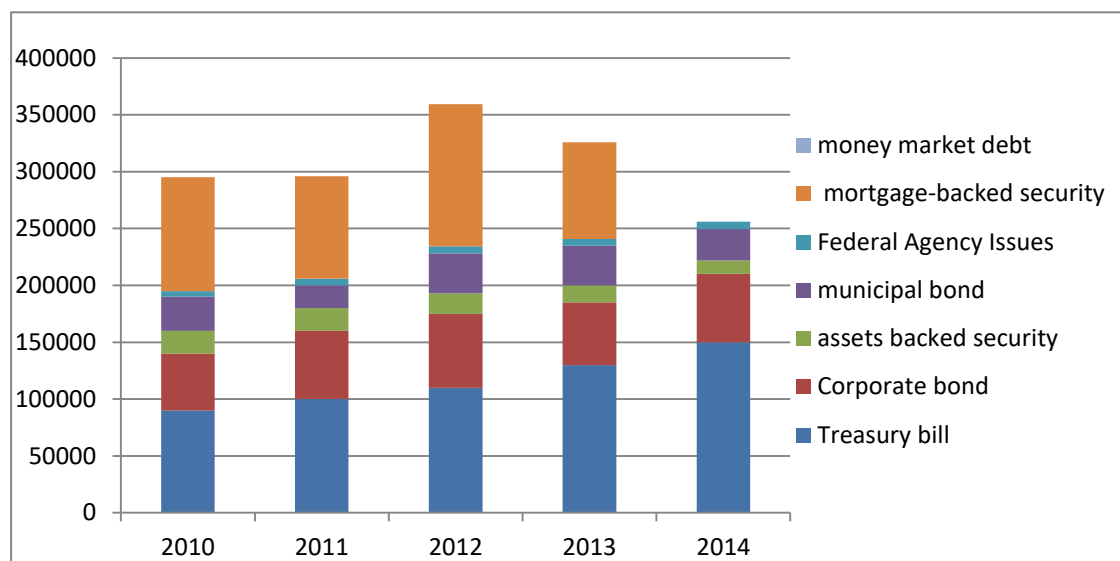
Figure 5.1 Bond inventory in bond market of China



Source: Securities Industry Association and Securities information network of China

Figure 5.2 shows the Bonds inventory in bond market of the USA.

Figure 5.2 Bonds inventory in bond market of the USA

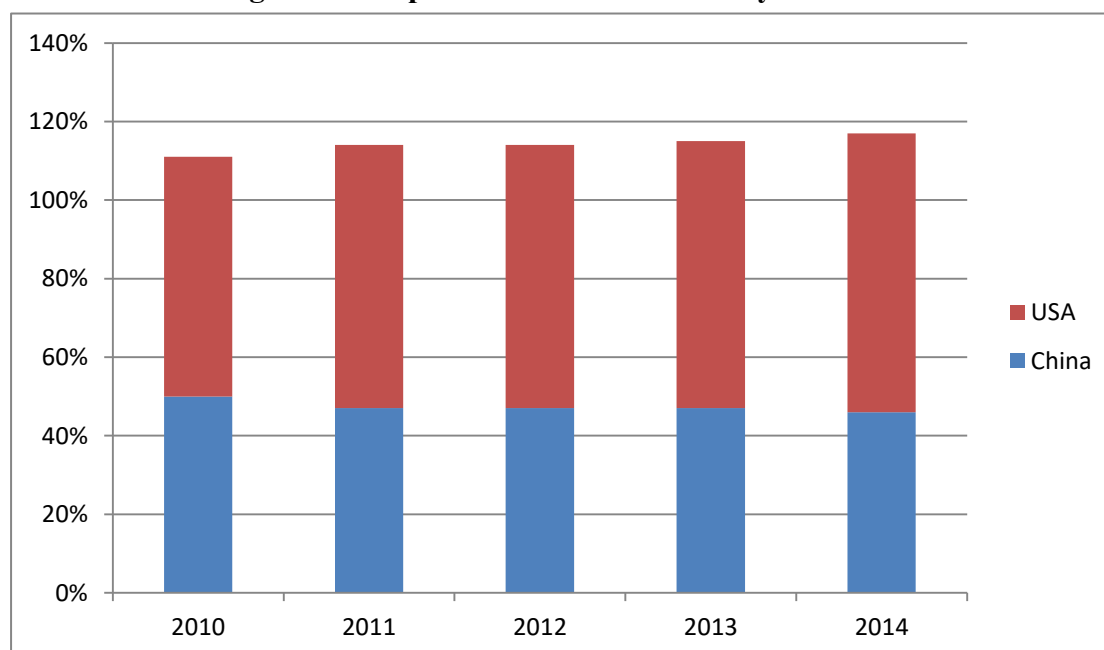


Source: Securities Industry Association and Securities information network of China

From the two figures we can see that the bond market stocking of USA and China are increased year by year, it shows both country have a booming band market. From the horizontal comparison it can be seen that the Chinese government bonds and policy bank debt accounted for vast majority of the proportion. While the USA bond market is more balanced distribution, treasury bills, mortgage-related bonds and corporate bonds are occupying a large proportion.

Figure 5.3 shows the proportion of bonds inventory and GDP.

Figure 5.3 Proportion of bonds inventory and GDP



Source: Securities Industry Association and Securities information network of China

It can be seen that, in terms of current economic volume in China, compared with the developed capital market the current proportion of the bond market in China still has a great gap to catch up and have space to development. But it is gratifying that China's bond market is rising year by year.

The above charts shows the comparison of bonds inventory and proportion of bonds to GDP from USA and China, we can clearly see the different between each other, what's more there still have lots of differences in bonds market that we can compare. And I compared these two countries' difference in bonds market with using different vision.

The issuing scale of bonds market in China and USA

In the USA capital market, the bonds market has a very important role, the development of bonds types also quite mature, and its scale also much more than the stock market. The amount of government bonds issued per year in the USA accounts for 100% of the total, and the market can be negotiable varieties of bonds, both bonds, municipal bonds, but also corporate bonds federal agency bonds.

Compared with USA the bond market in China has large disparity, the annual issuance of the total amount of GDP is about 15% and the species is relatively simple. Mainly in the national debt, the central bank debt, policy bank debt etc.

The investment varieties of bonds market in China and USA

The USA bond market is mainly based on short-term bonds issued by industrial and commercial enterprises and government. [28] Government short-term bonds accounted for 40% of government circulation. In addition, many municipal governments, municipal public institutions also issued municipal government bonds. These bonds are known as a bond that is second only to the "gold side bond", the bond that issued by the commercial enterprises become much more popular and has a core position in bonds market and also have lots of types.

In bond market of China, Government bonds occupied a large proportion. Which treasury bills and central bank bills accounted for the proportion of the bond market reached nearly 70%, and most of them are 5-10 years of medium and long-term bonds. The proportion of corporate bonds is very small and local governments are not allowed it to issue bonds.

Compared with the second market between China and USA

The secondary market of bond market in USA is mainly used to trade for outside dealings. At the same time, the widespread use of electronic trading system has also contributed significantly to the active circulation market. The daily trading volume of the bond market is about 13 times the number of shares traded on the New York Exchange. Government bonds and government support agencies issued bonds are very active.

The main circulation places of bond market in China are Shanghai and Shenzhen

stock market, interbank bond trading market and securities trading institutions counter trading market, Trading volume is relatively small, the overall turnover rate is only the 1/10 of bond market in USA.

Compared with the structure of investment in China and USA

The main investor of domestic bond are banks, funds individuals, insurance companies, foreign and international institutional investors, mainly the proportion of various types of investors hold bonds more balanced.

The structure of bond market in China is not very reasonable. There are state-owned commercial banks, joint-stock commercial banks, urban commercial banks, rural credit cooperatives, insurance companies, securities companies, fund management agencies. Although the number of market participation is numerous, but the proportion of bonds is very uneven, foreign institutions involved is very low.

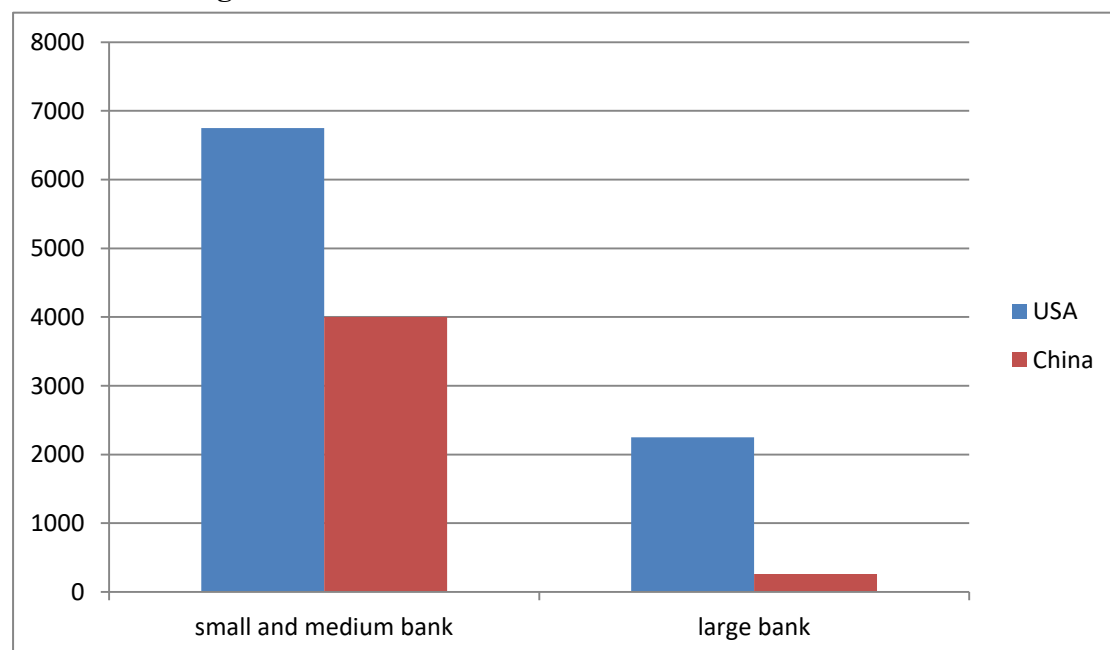
5.3 Comparison of bank system in China and USA

As we all known China is kind of country that have bank based system, and USA is a country that have quiet developed market based system. But bank has occupied a important position in both two financial system. Now I will conclude some ideals about the difference between these two countries.

Firstly, it mentions the different bank quantity of these two countries.

Figure 5.4 shows the different bank amount of these two countries.

Figure 5.4 Different bank amount of these two countries



Source: China banking regulatory commission

It can clearly see there still have a big gap for China to catch up, the data represents that the total amount of USA bank are 9000, and there are about 75% bank are small and medium bank, the main function of these banks are service for small

and medium company provide loan or guarantee. But in China the amount of bank and financial institutions are just 4262, banks that specialize in small and medium scale business are only a handful of bank such as Bank of Beijing, Zhejiang Bank, Minsheng Bank. In USA, more than 8000 banks serve 70 million enterprises, and there just 183 banks serve 42 million businesses in China, it means that the amount of bank in China is seriously inadequate and there have a large space to develop. Especially, there doesn't have too much branches of bank, from the degree of bank coverage (with per million population and per million square kilometers of bank branches to measure), China is still in developing compared with some of development countries. In USA, every person owned the choice to choose the branches of banks are 3.8 times than China, and compared with France, a person need to walk twice of the distance to get a bank branch of service.

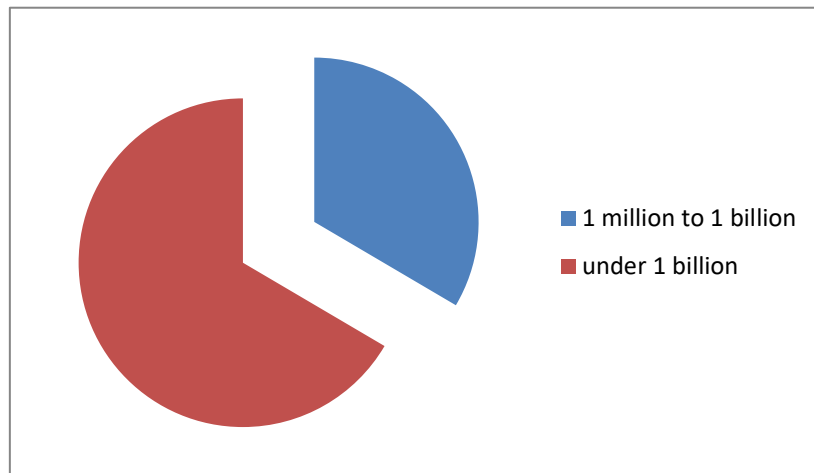
Secondly, It is emphasized the difference between the location of bank branches in China and USA. In spite of the large bank or medium size bank, community bank, villages and towns are all located in every corner of USA; it is convenient and fully understand operation status, project status and credit status of local small and medium sized enterprises in a timely manner and overcome the information asymmetry and reduce the financial transaction costs. In China only in addition to the traditional four major commercial banks in all parts of the country have branches, in many places only local government-funded commercial banks and credit cooperatives, foreign banks are mainly concentrated in Beijing, Shanghai and other foreign companies are relatively concentrated in several cities.

Thirdly, it mentions the differences of financial products of China and USA. In USA the Small Business [3] Administration (SBA) is the largest financial institution in USA that supports small and medium-size enterprises, its function is to provide direct loans and credit guarantees for small and medium-sized enterprises. There are more than 20 kinds of loan varieties. At the same time, other types of commercial bank loans are pretty much. But in China there is not such special for small and medium enterprises to provide financial services institutions, the varieties of bank loan are mainly concentrated in the working capital loans, the variety is very simple, most of the business or learn from the last century 60's to 80's of USA commercial bank products. Some product with high-market, high-tech varieties, such as futures, options, interest rate, swap, consumer loan securitization, derivative financial products trading in China are just at the beginning.

Last but not least, it mentions the guarantee industry. The industry of guarantee in USA has developed about 15 years, and there are about 10 companies goes to public in NASDAQ, what's more the SBA provide guarantees for loans to small and medium enterprises with congressional allocation. But the situation is different in China the industry of guarantees is in early stage. More than 500 security companies are mostly set up nearly a year or two, capital strength is insufficient, and the business scale is very small.

Figure 5.5 shows the registered capital of guarantees companies.

Figure 5.5 Registered capital of guarantees companies



Source: statistic of TONGHUA SHUN (<http://www.10jqka.com.cn/>)

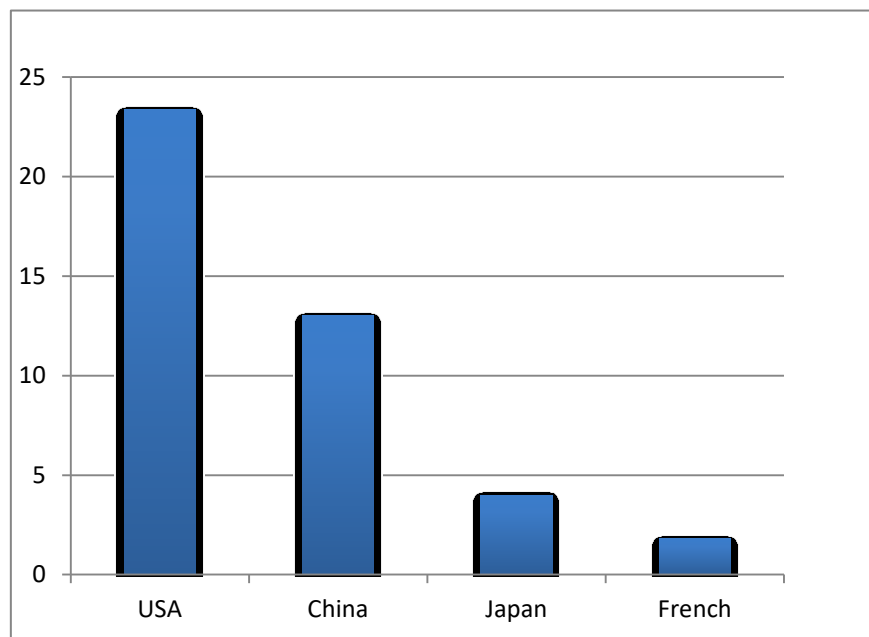
From this figure we can clearly see that most of guarantee companies' registered capital are very small, it may can't provide a large guarantee, and also represents that the industry of guarantee is still in the early stage.

5.4 Comparison of stock market in China and USA

As it shows that China and USA have a large amount of stock market, although China do not have a developed stock market as USA but both of them occupied important position in the world's economic. Now I would like to compare the stock market of these two countries.

Following Figure 5.6 shows the top four market value of stock market in China and USA.

Figure 5.6 Market value of stock market



From the figure we can clearly see that although China occupied the second position in market value of stock market but it still has lot of space compared with the USA.

It can clear see that the market value of Chinese listed companies increased year by year, the market value of USA listed companies remained stable.

Compared stock market in China and USA I concluded some different point by standing in different vision.

Firstly, USA has the world's largest and most structured multi-level capital market, from the spot to the forward, futures, options, from the market to the off-market, from the domestic market to the international market, it not only for enterprises to provide a multi-diversified financing channels, but also for investors to provide a portfolio investment, risk-diversified investment platform. However, the market system in China is not perfect, China has a spot market, but the derivative market is very lacking, we have relatively fast development of the market, but the OTC market is still small, in addition, with 150 trillion total assets compared to the banking sector, the stock and bond market in China, the size of market base is very small. Therefore, the corporate finance in China preferences focused on bank loans, people's wealth custody preferred bank deposits.

Secondly, the different national investment mentality, in USA there are national coverage, national unity and tax on behalf of the social security system, and the employer set up supplementary pension, supplement health insurance benefits. And also the USA's family think it is very important to keep eyes on pension in

management family finance, therefore, they prefer to have long-term investment objectives, and much more rational than other countries. On the contrary, China has short modern social security system, and lack of secure, and investor want to have a great success in a short period.

Last but not least, the different quality of joint stock company between China and USA. The stock market in USA has a an open international market, it not only has a large number of world-class multinational companies, such as Coca-Cola, McDonald's, IBM, Microsoft, Apple, but also outstanding enterprises from all around the world to provide adequate quality of listed resources. The situation is different in China, the A-share market is only closed market, it lack of a world-class well-known enterprises.

6. Conclusion

In macroscopic, a development of a country's economy determined whether the country can be powerful also influences a country's comprehensive national strength. In microcosmic, the development of a country's economy determined living quality of a country's residents and also happiness index. For those reason every country devoted themselves to developing their country's economy. Sometimes it is a suitable financial system occupied a core position, and it can be said that financial system determined the development of a country's economy. This thesis discussed the market-based financial system that represented by the USA, and financial system in China which has bank-based system. Following viewpoint are based on the statement in whole thesis.

In financial system point of view, every kind of financial systems have its own advantages and disadvantages. In market-based financial system, capital market is more developed, Long-term financing of enterprises is mainly carried out in the capital market, banks are more focused on providing short-term and settlement business. This financial system can be more rational and effective allocation of resources. But also it has some risk, the boundaries of financial business are blurred, and different types of financial institutions make up all aspects of the financial risk chain Capital markets are risked by leveraging and over-trading, and natural transfers are dispersed into the banking market, so that the risk of capital markets evolves into the risk of the entire financial system. Bank-based financial system does have its advantages and disadvantages, in this system the main external fund of enterprise is from bank loan it protect the funds more safety but it led funds lose reasonable allocation.

After the compared with the market-based financial market in USA and bank-based financial system in China, my point is, China can't use a single financial system whether it is bank-based system or market-based system, it should use more power which comes from the market and to make the funds more efficient.

Every country has its own history, policy and national condition, and these different factors forced them to choose the different financial system, but every single financial system can't be suitable for every single country. In my point of view, USA is kind of typical market-based financial system, so the economics in USA is deeply affected by market, and also it can be very to get out of control, and burst economy cyclical financial crisis very often. Therefore USA can't just favor a single financial system, should take some advantages of bank-based financial system.

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Abbreviations

USA-----United State

UK-----United Kingdom

RMB----Chinese Yuan

GDP----Gross domestic product

EU----Europe union

NASDAQ----National Association of Securities Dealers AUTOMATED Quotation

CDO----Debt-backed securities

ADR----American Depositary Receipt

ETF----Exchange traded fund

MBS----Mortgage-Backed Security

ABS----Asset Backed Security

FED----Federal Reserve System

SBA----Small Business Administration

OTC----Over-the-counter

IPO----Initial public offerings

WTO----World Trade Organization

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